

# Kuwait in the Time of British Empire

Time of Treaty 1899-  
1961

Time of Oil 1913-  
1976

Muhsen Khajah

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Cover: Sadra Tree. *Ziziphus spina-christi*.  
. Other than palm trees, Sadra (Arabic), a fruit-bearing tree  
grew in many houses in the old town of Kuwait





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## **DEDICATION**

History is a manifestation of continuity of life. This book is dedicated to the memory of my deceased parents and, hopefully, an inspiration for the present and the future of my children and grandchildren.





## **Preface**

The display of the old red flag of Kuwait during public festivals is a common sight throughout the country. The nostalgia for a simpler time and the desire of the local population to show their identity despite the obvious westernization of the country after the ordeal of the brief occupation in August 1990 seemed to have taken root. Memories and tales of hardship faced by the older generation in the pre-oil era to make a living contributed to a sense of pride in the red flag that flew over the pearling boats.

The narrow historical narrative taught in the local schools is baffling. So little is taught in the history classes in Kuwait of those countries, both neighboring and far away, that had a profound influence on Kuwait's history, attitude, and norms except perhaps in the context of the Islamic heritage or in connection with Arab history and politics. India is frequently mentioned in the local textbooks, but only in the context of trade. India's rich history and tremendous interaction and influence over the region is mostly ignored. Perhaps more surprising is the total disregard in the school curriculum for the exciting and relevant accounts of the Ottoman and the British

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Empires that had a compelling influence on Kuwait's past and present and even its future direction.

The local dialect throughout the Gulf is infused with Indian words, and the local diet and spices are a mild form of western Indian food. Post and telegram offices in the Gulf began in Bahrain in 1884 were all satellites of the British-India postal system. The postal stamps of all the small Arab states around the Gulf, from Kuwait to Dubai, were British with the portraits of kings and queens of England issued by the Indian postal service, and the unified circulating currency was, without exception, the Indian Rupees long past the independence of India in 1947.

The book addresses Kuwait's important affiliation with Great Britain that spanned a mere 75 years and, to a lesser extent, Kuwait's historical relationship with its neighbors. Kuwait's interaction with Great Britain safeguarded the town from being absorbed on more than one occasion. The British influence in the demarcation of borders of the Gulf territories, despite its shortcomings, defined and shaped the identity of these small states. Demarcation became a necessary feature of the geopolitics of the Arab territories around the Gulf but also defined the boundaries of the different oil concessions granted by each State. The newly defined borders created the present-day internationally recognized States, and preserved their identity, and prevented these countries and states from being ultimately absorbed<sup>1</sup>.

Equally significant, Kuwait's association with Great Britain served the British interests before the Great War. Kuwait was instrumental in the British participation plans in the Berlin-Bagdad Rail project and an integral part of the British strategy in its interactions with the other

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<sup>1</sup> Paul John Rich, *Creating the Arabian Gulf: the British Raj and the invasion of the Gulf*, p. 31

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European imperial powers in the early twentieth century. The Anglo-Kuwaiti relation evolved post World War Two from political and strategic to become more of an economic concern. Oil supply at low prices and Kuwait's backing of sterling was essential for the British economic well-being during the 1950s and 1960s.

I quickly realized the complication of writing a history book of the recent past. Many of the important players are still alive in the time of writing, and many of the critical events are contemporary enough to be interpreted from the present-day perspective rather than viewed as historical narratives. The interpretation of not-so-distant past events through the concerns of current understanding, though sometimes erroneous, was hard to avoid. My other difficulty is writing of circumstances surrounding my own country objectively and impartially, divorced from personnel attachment, reflections, and emotions; admittedly, I was continuously hard-pressed to avoid precisely that.

The more I researched, the more I appreciated the fine line that the people of Kuwait had to walk to keep their country intact. Even amid internal strife or during the long years of economic hardship, people were utterly jealous of their independence. Kuwait survived as an entity in the midst of desert wars and raids; it benefited from the British political influence and the quasi-protection its navy provided. But the lopsided conclusion of its borders, whether rational or not, in which Kuwait, under British mediation, lost a large part of its land left the ruler and population with a sense of unjust and outrage. Even during the slow shift post World War Two from colonial-minded Britain to the American influence, the power balance in the Gulf did not change much. Kuwait and the other Arab countries around the Gulf continued to be part of the British system.

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In general, British supremacy was part of the broader colonization of the region tied to the British obsession with the protection of India from the perpetual European desire to challenge the British. The rivalry between the European powers in the pre-war era was manifested in the British's resolve in controlling the terminus of the German-sponsored Berlin-Bagdad Rail on the Gulf and their refusal to allow any European naval presence anywhere in the Gulf. Their resoluteness in the consolidation of their control expedited their decision to bring Kuwait under its sphere of influence. In the process, they undermined the Ottoman Empire's presence in the Gulf.

During the interwar period (November 1918-September 1939), Kuwait's history was more to do with establishing its borders, the economic hardship that accompanied long years of desert boycott, and its uneasy relationship with the Government of Iraq. Its internal strife and rise of nationalism matured the country's political ideology but magnified the rift between the different sectors of society and the gap between the conservative establishment and the progressive elements. Despite the differences, the oil discovery in Burgan in 1938 and the transformation of the population from rags to riches overcame the hardships and muted any future strife.

Most books on Kuwait's history, whether written by the local and Arab historians or by British scholars, had always begun with the history of migration from the open desert toward the sea. I tried to present the historical narrative viewed from the Gulf inward. The first chapter of the book charts the European voyage around Africa, their arrival to the region, their rivalry, and the eventual British domination over the Gulf territories. The comprehensive treaties between the British/Indian Government and the small Sheikdoms of the Gulf before the breakout of World War One rendered the Gulf a "British lake" for most of the

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twentieth century. The subsequent chapters examine the interwar years' including the events of the 1930s presented in "The Pivotal Decade."

The book presents two parallel and interrelated narratives: Kuwait's political and social history during the years of British protectorate (1899-1961) and the complicated story of Kuwait's oil from the first visit of the British oil specialties in 1913 to the amicable nationalization in 1976. The two narratives are strongly interlinked; oil discovery altered the internal relationship between Kuwait's political and social elements and heightened the perpetual external threats to its very existence.

Kuwait achieved sovereignty over its wealth in 1976; in the same manner, it attained its independence in 1961, calmly and amicably. The patience and the resilience of the local population reflected their peaceful attitude and their genuine temperament, shaped by the decades of interaction with the open sea as divers and with the people and the cultures of other nations as traders.

Most of the empirical facts in this book are based on the available documents in the British and, to a lesser extent, the Turkish archives and relevant books and articles. The chapters on the oil concessions and nationalization are based on detailed correspondence between the various departments of the British and the Indian Governments, relevant books, and articles, as well as the documents of British Petroleum Company (ex APOC and AIOC), archived in the University of Warwick in the beautiful countryside of England

I am grateful for the support and patience of the staff of BP Archive Office staff at the University of Warwick for providing me the unique material that helped to complete the story of oil in Kuwait.



## **Transliteration**

I followed names and places used in the English references or those most familiar to English readers. To avoid the emotional divergence and political dispute still alive in the Middle East, I referred to the Persian Gulf or the Arabian Gulf (as commonly used in Arab countries since the early 1960s) as merely “the Gulf” except where specific quotations are used.



# **1 The European Conquest**

## **Out of Nowhere: The Portuguese Exploration**

In reminiscences of the Crusades, the fifteenth century witnessed fierce interactions and armed conflicts between Christian Europe and the Muslims of the East at both ends of Europe. The two faiths traded places; in Southern Spain, Europeans regained their Andalusia from the Muslims in the late 15<sup>th</sup> century, while the Muslim Ottoman just forty years earlier had conquered Constantinople, the sacred capital of the Orthodox Christian. Though both alleged to defend their faith, they had their eyes fixed on wealth and control of trade. The Muslim Turks invaded Europe from the east, transformed its churches into mosques, and with the fall of Constantinople in 1453, converted the Byzantine city into a Muslim capital. They defeated the dominating Venetians for a share of the Mediterranean trade and were in control of the Aegean Sea by the close of the 15<sup>th</sup> century. It was the Turkic tenacity and resolution backed by their new sea power that won the day.

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On the extreme end of the continent, the Portuguese and the Spanish Christianized the coastal land of Spain. The Iberians dislodged the Muslims from their last fortress of Grande in 1492, busied with cleansing the mosques with salt and converting them into churches, and expelled the Muslims from the Peninsula. The hope of another Crusade preoccupied the Portuguese mind; they were keen to spread the Cross but equally eager to reach the East in a direct route. Their appetite was to establish trade in the spices of Asia and gold of Africa rather than be subordinated to the traders of Venice and Genoa.

The Portuguese had a taste of the Orient through their frequent incursion in North African cities and were enriched by the West African gold. However, they were frustrated with their geographical isolation, facing the mysterious Atlantic Ocean, and by their exclusion from the Mediterranean trade, monopolized by the Vincennes and Genovese, and disheartened by their inadequacy to reach the holy land of Jerusalem. Crusaders were still alive in their minds and hearts.

Spices, timber, silk, and other goods from Asia reached Europe through the vital Silk Road that extended from China to Europe by way of the northern corridor, and by way of the lucrative maritime trade between the Indian coast to the Gulf, believed to have been pioneered by the Harrappans that ruled India between 3000 to 1700 BC. Goods were also shipped through the Red Sea and overland in Egypt to Alexandria and forwarded to Europe, or through the Gulf caravanned in 80 days to Aleppo in Syria, before loaded on ships controlled by the Vincennes and Genovese on the Eastern Mediterranean and dispatched to the Italian ports.

Inspired by their enthusiastic King John II, the Portuguese were dreaming of a sea route envisaged in their minds. Already enriched from the gold they mined in

the West African territories, they were desperate to find a way to circumvent the traditional Mediterranean traders and to outflank the historical silk roads. Bartolommeo Diaz sailed in 1488 from Port of Lisbon into the empty seas along Africa's west coast, but it was Vasco da Gama that rounded the African tip a decade later, eventually reaching the familiar trade routes traversed by the ancient civilizations and dominated by the Muslim merchants with their familiar dhows. Vasco da Gama was the first European to arrive in the waters of the Indian Ocean, considered a Muslim lake in the early 16<sup>th</sup> century. The deep hauled Portuguese ships, designed for long-distance travel and equipped with mounting cannons, were assisted by a controversial Arab navigator, Ahmad Ben Majid, who helped da Gamma and the Portuguese to navigate through the monsoons winds and sail their ships on the final leg from the coast of East Africa to the Indian shore. The discovery of the new route was momentous; it ended the isolation of Europe and brought them into direct contact with the long-established traders of the East. For the first time, Europe was linked by maritime to India and the busy world of Eastern trade. The Portuguese had outflanked the adversely overland travel routes, the extortion of the Venetians' monopoly of the Mediterranean, and the hustling of the Arab middlemen in Syria and the Red Sea.

The Indian Ocean was, until then, the only sea route that connected the trade centers of the East to markets of the Near East and Europe, and the conduit of cultural exchange manifested in the spread of Islam as far as Java by the Muslim merchants and missionaries. The discovery was bound to dent the Ottoman Empire's economy, threatened Mamalek control of the spices trade, and detrimental to the Arab population whose livelihood relied on caravanning the goods between Basra on the Gulf to Aleppo near the Mediterranean. The ocean route around

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Africa was cheaper, safer, and extremely lucrative for the first comers. It enriched the Portuguese and made the exotic spices and products affordable to European consumers. The change had a profound influence on the Middle East countries; Egypt alone suffered six famines between 1686 and 1731<sup>2</sup> as a consequence of trade loss to the Portuguese and Cairo's flawed administration regime. Despite attempts to maintain the old routes, the return of bulk trade to the Middle East had to wait for the building of the Suez Canal in the second half of the 19<sup>th</sup> century.

Portuguese arrival was characterized by unprecedented violence; it marked the end of the unwritten maritime law that "the sea belongs to all." They asserted their supremacy with naval guns and ruled over the waters and the territories beyond India and the Middle East. The Portuguese ships and canons raided ports, took hostage<sup>3</sup>, tortured, hung, and mutilated their captives<sup>4</sup>. They pirated in the waters of the Indian Ocean and destroyed coastal cities, and killed many of their inhabitants. Eventually, the Portuguese, by direct order from da Gama, attacked the dhow *Miri* loaded with pilgrims in their return from Mecca. They massacred and burned Muslim passengers, including women and children, despite their unexpected surrender without a fight<sup>5</sup>. Their violence was soon followed by another massacre in 1504, killing more than

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<sup>2</sup> Quataert, Donald, *The Ottoman Empire 1700-1922*, Cambridge Univ. Press p.115

<sup>3</sup> Roger Crowley, *Conquerors How Portugal Seized the Indian Ocean and Forged the First Global Empire*, Faber, and Faber p 65, and 70

<sup>4</sup> Roger Crowley, *Conquerors How Portugal Seized the Indian Ocean and Forged the First Global Empire*, Faber, and Faber p. 69

<sup>5</sup> Roger Crowley, *Conquerors How Portugal Seized the Indian Ocean and Forged the First Global Empire*, Faber, and Faber p. 124

two thousand Muslims while traveling on the Red Sea from India to Jeddah and Cairo<sup>6</sup>.

Within a decade, Alfonso De Albuquerque, the most prominent Portuguese naval commander, appeared on the Near East scene; he soon monopolized all trades with India and the territories across the Arabian Sea. The Portuguese controlled the shipping lines around Africa and were resolved to dominate the traditional sea routes of the Middle East. They occupied Bab Al Mandab at the Red Sea entrance and reached the Port of Jeddah not too far from Mecca. They choked the trading venue of the Mamalek of Egypt and blocked the sea-land trade between India and Europe through the Egyptian ports. They eventually turned to the trade route through the Gulf; Albuquerque attacked and plundered the thriving town of Muscat setting mosques and ships in the local harbors on fire and even multitude some of the citizens who resisted his advance. He eventually occupied the Kingdom of Hormuz in 1507 at the Gulf's mouth with relative ease and signed a treaty with its ruler.

Albuquerque laid the foundation of the first European Empire to be established in the east.<sup>7</sup> He seized the Gulf of Gombroon and the island of Hormuz from the Persians and ruled over the population and trade throughout the 16<sup>th</sup> century. In the ensuing hundred years, Hormuz became a trading hub for exchanging goods and spices from India and as far as China, silk, horses from Persia, and pearl from Bahrain, transforming it from a sleepy island to a city full of active traders and the artesian newcomers. The Shah was jealous of the newfound Portuguese wealth and

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<sup>6</sup>Roger Crowley, *Conquerors How Portugal Seized the Indian Ocean and Forged the First Global Empire*, Faber, and Faber p. 150

<sup>7</sup> Sir Arnold Wilson, *The Persian Gulf: An Historical Sketch from the Earliest Times to the Beginning of the Twentieth Century*, Oxford 1928, p.121

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their monopoly of trade, but most of all, he resented the usurpation and occupation of one of his islands and was aggravated by the annual tribute he had to pay.

The Portuguese turned the rulers of the occupied territories into vassals, built forts and warehouses, collected tributes, and ultimately controlled the Near East Seas entrance in Bab Al Mandab on the Red Sea and Hormuz on the Gulf. None of the states around the Indian Ocean, the Arabian Sea, or the Red Sea had developed enough naval capabilities to stand in their way. Lack of maritime power was most evident with the Persians; historically, their strength rested on their powerful army rather than their insignificant naval force, despite their long coastline. The Portuguese asserted their supremacy with relative ease, enriched by extorting protection money from seaborne trade between South East Asia, India, the Red Sea, and the Gulf. Natives and Merchants were forced to buy “cartazes” from the Portuguese to avoid the risk of plunder and to secure safe passage and trade in the Indian Ocean, the Gulf, and the Red Sea<sup>8</sup>.

While the Portuguese were closing in on the Gulf from south and east, the Turks arrived at the western shores of the Gulf through today’s Iraq. They captured Bagdad from the Savadies of Persia in 1534 and extended their presence to the port city of Basra near the Gulf in 1546, closer to the Indian trade route than their port on Suez. They established a presence on the southern shores of the Gulf in Al-Hasa, not far from the territories dominated by the Portuguese in Bahrain and Hormuz. A clash between the two emerging powers to control the Strait of Hormuz and the route to the Indian Ocean was inevitable. They both were motivated by their desire to control the

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<sup>8</sup> John Darwin, *After Tamerlane The Rise and Fall of Global Empires, 1400-2000*, p. 53



lucrative spices trade from India and the Far East to Europe

A period of arm conflict with heavy cannons ensued between the two armies on the shores while their naval forces clashed in the Gulf. The Portuguese attempted to capture Basra while the Turks proceeded against Bahrain and Hormuz. In response to the Portuguese massacre of the pilgrims in the Red Sea, the Turks sent a large fleet to the coast of India to revenge the death of the pilgrims, but their desperate attempts to capture the Portuguese cities on the Indian subcontinent failed. The Turkish ships were no match for the Portuguese's powerful fleets; moreover, Portuguese occupation of the strait between the Gulf and the Indian Ocean made it hard for the Turks to breakthrough. Turks' attempts to capture Bahrain in 1559 by dual attacks from their land base in Hasa and naval attack from Basra failed. Though the Turks were on the verge of defeat, the interdependency of sea-land trade forced the two combatants to reach a compromise in 1562 to share the trade route between them. The Portuguese would control the sea passage of the goods destined to Europe through the Gulf, while the Turks would command the onward caravan route overland to Aleppo.<sup>9</sup> Though trade through the Gulf and caravans from Basra to the Mediterranean had somewhat lost its appeal, the Gulf remained a vital waterway to serve the surrounding territories.

## **The Domination of Northern Europeans**

The desperate Portuguese attempts to seclude their discovery from other Europeans did not last too long. They were joined by the Dutch and the British a century later.

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<sup>9</sup> Finkel, Caroline *Osman's Dream, The Story of the Ottoman Empire 1300-1923*, p.137

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The allure of the lucrative spices business attracted the North Europeans to send their expedition and compete for the intercontinental trade. Unlike the Portuguese Kings, the Northern European explorations were not driven by faith or religious zeal. They were exclusively motivated by commerce; it was a full-fledged capitalist venture.

The first Dutch fleets left Holland in 1595, a century from the first Portuguese adventure and decades after the Turks attempted to reach India through Basra and Yemen. The British, meanwhile, formed the East India Company (EIC) in 1600 by Queen Elizabeth's Royal Charter with a capital of 72,000 pounds, decreed to exploit trade with Southeast Asia, to share in the spices trade, and to find markets for the English wool in the East. Five vessels left London in 1601, headed to the Indian Ocean, landed in Surat on India's West Coast just north of Bombay (Mumbai). It became the Company's first trading post in 1612 after they fought off the Portuguese and obtained their first trade concession from the Mughals. The Company's power was enhanced 50 years later when King Charles II announced in 1661 that they could serve as an agent for the Crown. He declared that "the men of East India were invested with full power and lawful authority, to seize upon the persons of all such English or any other Subjects in the East Indies."<sup>10</sup> He further reinforced Company's prestige and colonial power once he passed in 1668 the custody of the island of Bombay, which he had obtained a few years earlier as part of the dowry of his marriage to the Portuguese princess, to the Company for an annual rent of 10 pounds sterling. Moreover, the King authorized EIC to form an army and to defend the British turfs and, above all, India.

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<sup>10</sup> Lawson, Philip *The East India Company: A History*, Longman p. 44

## KUWAIT IN THE TIME OF BRITISH EMPIRE

The Company was transformed in the 1770s from a trading house into one of the most potent commercial entities at its time. It established its standing army and navy, mainly Indians trained by the British, known as sepoys, and was backed by the Imperial naval force to manage its conflicts with the Indian merchants and counter the mounting European rivalry and challenge. EIC's role was no longer limited to economic domination; its military and imperial power eventually laid the foundation for British supremacy in India and the Gulf for the next two hundred years.

The need to market British goods, mainly the surplus woolen textiles and clothes suited for colder climates, with little use in India, forced the British to look for a more suitable market; Persia was favored. The East India Company's first entry into Persia was in 1616 in the reign of Queen Elizabeth I. They anchored their ships on the coastal city of Jask on the Arabian Sea, 90 miles east of Hormuz, carrying woolen textile and other goods to the newly opened Persian market. The friendly relationship between the British King and the Persian Court soon led to an agreement with the Persian Shah Abbas (1585-1629) to import clothes and other products in exchange for Persian silk. The Shah allowed the British East India Company, despite strong resistance from the dominating Portuguese power at that time<sup>11</sup>, to establish a factory (warehouse and housing complex) in Jask, not too far from the entrance to the Gulf. He issued a Farman (royal decree) that "provided for the perpetual residence of an English Ambassador" in his country and granted the English a broad spectrum of rights to businesses, freedom to exercise their religion, the power to appoint Agents, and explicit order to treat them with respect<sup>12</sup>. His agreement with the British served his

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<sup>11</sup> Sir Reader Bullard, *Britain and The Middle East from Earliest Times to 1952*, Hutchinson's University Library p. 25

<sup>12</sup> J G Lorimer, *Gazetteer of the Persian Gulf* 1915, p.19

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purpose; he insisted that the silk sold to the British were to be diverted away from Aleppo, under Turkish domination, thus depriving his historical adversary of their transit dues and provided the European markets with a cheaper supply of silk.

The Persians eventually recovered Gambroon (Bandar Abbas) from the Portuguese in 1616 and were resolved to expel the Portuguese from their stronghold in Hormuz. The Shah regarded the occupation "as prejudicial both to the honor and prosperity of his country."<sup>13</sup> Portuguese power was already in decline; they were despised along the whole Gulf coast and had by 1602 lost Bahrain to the Persians. The Shah requested the assistance and the backing of the East India Company's naval force in his endeavor to recapture the island of Hormuz and return it to his sovereignty. He threatened the English with the cancellation of the commercial privileges if they refused and manipulated EIC by withholding the silk caravan in its way from Isfahan that the Company had already purchased and paid for. In return, the Shah promised the British the right to establish a factory in Bander Abbas and trade exclusivity in the Parisian silk. He even agreed to share the custom revenue with the EIC and exempt British goods at Hormuz from customs duties<sup>14</sup>.

In 1622, Persian forces of 3000 men and six-armed East India Company's ships defeated the Portuguese in Hormuz. They expelled the 2000 Portuguese soldiers to Muscat under British protection and sent the Portuguese officers to Surat in India as captives. The Persian and the British equally divided the spoils, while the Shah allowed the British and the Dutch, who had also contributed to the attacks on the Portuguese forces, to establish their

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<sup>13</sup> J G Lorimer, *Gazetteer of the Persian Gulf* 1915, p.23

<sup>14</sup> Sir Reader Bullard, *Britain and The Middle East from Earliest Times to 1952*, Hutchinson's University Library p. 26

factories in the coastal town of Bandar Abbas, but not in the more strategic island of Hormuz.

The loss of Hormuz forced the Portuguese to look elsewhere in the Gulf; they soon established forts and factories along the Omani coast and even one in Basra on the northwest end of the Gulf. However, the Omani Arabs siege the Portuguese last stronghold in Muscat, and with a surprise night assault in 1650, the Portuguese resistance collapsed and their army, including their leaders, surrendered. The Portuguese's expulsion from Hormuz and Muscat, their unpopularity amongst the local inhabitants, and their loss of sovereignty of their own country to the Spanish King marked, by the end of the 17<sup>th</sup> century, the demise of two hundred years of Portuguese political influence in the Gulf. Even after their eviction from Persia and Muscat, the Portuguese clung to their interests and continued to trade, although with some difficulties. Their hostile relation with the Arabs of Muscat did not ease; frequent scrimmages, including attacks on their ships in the Indian Ocean, persisted well into the 17<sup>th</sup> century. Portuguese hegemony gradually faded; however, their beautiful forts at the entrance of Muscat Bay, Bahrain, and the islands of Hormuz and Qashim are still conspicuous relics in the lands they once occupied throughout the Gulf

## **The Dutch in the Warm Waters of the East**

The demise of the Portuguese power coupled with the British naval fire and their favorable standing with the Shah would have been good enough for the British to be the exclusive power in the Gulf if it was not for the Dutch. As noted by an English factor, "now we have broken the ice, the Dutch find good fishing."<sup>15</sup>

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<sup>15</sup> George Curzon, *Persia and The Persian Question* v2 p.420

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The Dutch had managed to reach the Indian Ocean a century after the Portuguese. They formed the Dutch United East India Company or Vereenigde Oostindische (VOC) in 1602, recognized as the arm of the Dutch Government with a quasi-government power, including the right to declare war. They soon wrested the species trade center Cochin in the south of India from the Portuguese, established their presence in the Far East in the Bay of Bengal and the South China Sea between India and China, with their power center in Jakarta (Batavia). They followed the British footsteps to Persia, attracted by the fine silk produced in Isfahan and the prospect of the lucrative trade. They supported Shah Abbas and the British with their heavy guns in their war against the Portuguese in 1622, but no sooner than the Portuguese were evicted from Hormuz, the Dutch were elbowing the British for the Persian silk. Although the British had a head start and better standing with the Shah, they soon fell behind. The Dutch traders' influence evolved by their aggressive tactics, including bribery and violence when needed. They eventually extended their challenge to the British trade in Basra, south of Iraq, and forced the British to retreat throughout the Gulf.

Dutch commercial and military boldness was perhaps the most severe threat to the British East India Company (EIC) presence in Persia. For a century and a half, from 1623 to 1766, VOC was the most important trading company in Persia, undermining the British East India Company's presence. In November 1623, the Persians permitted them, along with the British, to establish their first factory or trading post in Gombroon (later renamed Bandar Abbas), granted VOC trade and tax concessions similar to those given to EIC, and allowed them to import products in return for the Persian silk. The Dutch's influence was on the rise; their fleets were arriving with

increasing frequencies, and by 1650, large pepper consignments were unloading in Persia by a fleet of ten vessels bartered for the Persian silk. VOC's unsuccessful attempt to corner the silk market by raising the price delighted the Shah. The fierce competition between the Dutch and the English inflated the price of silk and enriched Shah's treasury. The rivalry dented the British share of the commodity trade; persistent losses and the hostilities of the Persian authorities were steering the company's Bombay and London offices to consider the closure of its activities in Persia altogether in 1643 and later in 1680. Despite orders from London, the local company's representatives remained.<sup>16</sup>

Increase tension obliged VOC to resort to their military power to resolve their conflicts and settle the frequent quarrels with the Persian Government over trade rights, taxes, and payments. They occupied the nearby island of Qashim in 1645 and blockaded Bandar Abbas (Gombroon) in 1685 over late payments. Ultimately, in 1708 the Dutch attacked and destroyed the town itself when the Shah annulled his predecessors' favorable concessions. The end of the Savadi dynasty by the Afghans and the accompanying unrest and violence forced the Dutch in 1722 to move their factory from Bander Abbas to the Island of Karg northwest of the Gulf, isolated from the inland influence and interference of the local authorities and closer to Basra and Kuwait. It was relocated once again in 1737 to the port of Bushire after the new Persian regime besieged VOC offices in Isfahan. It was during their stay in Karg that they built a fortress and warehouses and began to contact the local sheiks of Muhmmara and Kuwait, but to no avail.

Years of instability in Iran after the assassination of Nader Shah in 1747 and Holland's weakened position in

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<sup>16</sup> J G Lorimer, *Gazetteer of the Persian Gulf* 1915, p.41 and p.59

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Europe led to the decline of the Dutch influence and trade with the Persian and revived the British East India Company activities once again. The fall of the Dutch maritime power, by then only a shadow of their heydays and VOC's political attitude toward the new regime of Karim Zand, caused their trade with the Persians to become by the mid-18<sup>th</sup> century a losing venture. They closed their factory in Bander Abbas in 1759 and abandoned their factory in Basra in 1753 after friction between the Turkish Governor and the Dutch Resident. They were finally expelled in 1766 by the Persians as they surrendered the fortress, warehouse, and factory on Karg island, leaving the field almost entirely to the British.

Just like the end of the Portuguese, the demise of the Dutch enhanced the presence of the British in Persia and the Gulf. Karim Zand, the new Shah of Persia, realized the need for British naval assistance to bring the Persian coastal tribes into his fold. His overture to the British included permission to open a factory in Bushire and various commercial privileges in Persia. Encouraged by the Shah's offer, the East India Company moved their commercial Agency to the port city of Bushire west of Bander Abbas on the Persian coast in 1763, closer to Zand's new capital city of Shiraz, and away from the incontinence of extortion of local Government in Bander Abbas.<sup>17</sup> Not only was Bushire's port more secure, but it was also centrally located, which allowed trade with both shores of the Gulf. Its Persian Governor agreed to exclude the British from payment of all taxes, granted exclusivity to the British Company, and promised to ban any European citizen from residing there so long there was a British agency office.<sup>18</sup> Since that date, Bushire became the country's leading commercial port and the main EIC's

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<sup>17</sup> J G Lorimer, *Gazetteer of the Persian Gulf* 1915, p.41 and p.92

<sup>18</sup> Sultan Al Qassimi, *AL Qawasims and the British Aggression 1797-1820* (Arabic), p. 29



trading post to export raw silk to Europe, carpets, tobacco, rosewater, and even opium to the Indian market and imports of wool clothes, sugar, and species to the Persian markets.

The British presence in the Arabian side of the Gulf came much later. The Omanis denied the British in 1659 to establish a factory and a trading post in Muscat, mostly because the Omanis were acutely protective of possible interference in their internal affairs. It was more than a century later that the first official entry of the British in Muscat was achieved. The British established their Agency in 1778, soon followed by an agreement of alliance between the East India Company and the Imam of Muscat in 1798. By the break of the nineteenth century, Muscat became the hub for all EIC ships registered to operate in the Gulf. The agreement was mutually beneficial; it alleviated British fears of the French approach to India and for the Sultan of Muscat to confront the possible challenge from the Wahabi movement and their allies, the Qawasims not far from his territory.

EIC's business and operation in the Gulf expanded rapidly. Gulf waters, busied by the local dhows and sanboks, attracted the British merchants out of Bombay.<sup>19</sup> By 1810 the Company had established four separate Residencies in Bushire, Bagdad, Basra, and Muscat. Though Bushire served as the Company's headquarter, the bulk of goods entering and leaving the Gulf were by then through Basra and Muscat, mainly to serve the regions' needs and trades, and to some extent, to connect India to Europe. Caravans continued to travel, though with much less luster,<sup>20</sup> from Basra and Kuwait to Aleppo in 80 days

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<sup>19</sup> J. Forbes Munro, *Maritime Enterprise and Empire: Sir William Mackinnon and his business network* (Woodbridge, 2003)

<sup>20</sup> Sir Arnold Wilson, *The Persian Gulf, An Historical Sketch from the Earliest times to the Beginning of the Twentieth Century*, Oxford 1928 p.2

journey and to Bagdad by a combination of riverboats and caravans<sup>21</sup>. Goods arrived by land from Europe, Syria, and Turkey were offloaded in Basra before distributing to the neighboring territories, while more than half of goods imported from India to the Gulf were received in Muscat as a point of transit to Bushire, Bahrain, and Basra dispatched to the surrounding countries and conveniently forwarded from Basra and Kuwait

Despite the upheaval in Persia and the decline of trade, Britain was not ready to leave the Gulf. The region had emerged as a periphery to India; Gulf waters created a maritime protective barrier against attacks by the rival imperial powers and the vast Persian land against Russian design on India or the Gulf. Meanwhile, Basra evolved as a vital communication hub for the British colonial setup, first for the overland postal link between London and Bombay through Bagdad and Syria and thence to London, and in 1864 more advanced telegraphic and air service infrastructures between London and Bombay through Basra and the Gulf. Ultimately, British dominance paid off; they kept the French from establishing a naval base in Muscat or Persia in the early 19<sup>th</sup> century and blocked the Germans' rail system a century later from reaching the Gulf.

### **The confrontation between the Qawasims and British**

Trade rivalry between the British traders and the native population of the Gulf desperate for their livelihood was accelerating; confrontation was inevitable. Trading with India and Africa was more important for the local population than for the British since their lives practically depended on selling their pearls and dates and importing

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<sup>21</sup> J G Lorimer, *Gazetteer of the Persian Gulf* 1915, p. 166

their needs. The local traditional merchant ships owned by Arabs, Persians, Armenian, Indians, and Omanis dominated the Gulf's traffic and depressed East India's trade. Their sail ships were simple compared to the British steamboat fleet, and their freight charged for shipping between the Gulf ports and the Indian or African coasts was, as expected, much lower. According to the scholar and the sovereign ruler of Sharjah (now part of United Arab Emirates), Sheik Sultan Al Qassimi, the British were, by the end of the 18<sup>th</sup> century, desperately losing their commercial edge. Still, they never loosened their military grip on the Indian coast or around the Gulf.<sup>22</sup> In his *Gazetteer*, the historian John Lorimer tacitly admitted to the decline in EIC trade with the Gulf, but he attributed the temporary loss of trade to widespread piracy, plague around Basra, local unrest in Persia, and general economic downturn. He insisted that the East India Company's new role in the late 18<sup>th</sup> century was to protect the Indian trade rather than active participation.

Maritime violence in the Indian Ocean and the Arabian Sea was not a new phenomenon. The brisk trade between India, the African coast, and the Gulf had encouraged multiple acts of piracy by the local inhabitant, soon joined by European pirates not long after their arrival in the early 16<sup>th</sup> century. Pirating was prevalent during the Portuguese domination in the 17<sup>th</sup> century and was by no means confined to any one nationality or group. By the end of the seventeenth-century navigation had become difficult from the growing power of Muscat Arabs acting against Persian trade.<sup>23</sup> Their menace was a threat to the open exchange, and the fear of their supremacy of the Gulf was

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<sup>22</sup> Sultan Al Qassimi, *AL Qawasims and the British Aggression 1797-1820* (Arabic), p. 48 and 51

<sup>23</sup> Sir Arnold Wilson, *The Persian Gulf an Historical Sketch from the Earliest times to the Beginning of the Twentieth Century*, Oxford 1928 p. 194

increasingly real.<sup>24</sup> According to the British Historians, "the strength of the Arabs at Muscat at that time was so great as to excite an alarm that they would obtain the command of the Persian Gulf."<sup>25</sup>

The Arab fleet of five large ships embarked with fifteen Hundred men on board on the Portuguese port of Kung; they plunder and capture a precious Armenian ship.<sup>26</sup> The English pirates were equally alarming; they committed two acts of piracy in 1695 under the English colors, and in the following year, five pirate ships flying the English flag appear in the Red Sea, each mounted with fourteen guns, and having crews of one hundred and fifty men, plundered ships sailing in the Persian Gulf and the Arabian Sea.<sup>27</sup> Their threat was no less fearful; they were soon viewed in the seas around Arabia "as despicable as the Portuguese in India."<sup>28</sup>

Like most of the inhabitants of the coast of the Gulf, the Qawasims' livelihood was pearl diving and trading between India, Africa, and Basra dealing in timber, species, pearl, dates, and slaves. Their monopoly of pearl sales to the Indian merchants at lucrative prices helped them thrive and soon established a naval force that made them the most potent maritime power in the Gulf. Their base in Ras Al Khaimah on the eastern coast of the Gulf and their sphere of influence that at one time extended

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<sup>24</sup> Sir Arnold Wilson, *The Persian Gulf an Historical Sketch from the Earliest times to the Beginning of the Twentieth Century*, Oxford 1928 p. 194

<sup>25</sup> Sir Arnold Wilson, *The Persian Gulf, An Historical Sketch from the Earliest times to the Beginning of the Twentieth Century*, Oxford 1928 p. 248

<sup>26</sup> Sir Arnold Wilson, *The Persian Gulf an Historical Sketch from the Earliest times to the Beginning of the Twentieth Century*, Oxford 1928 p. 194

<sup>27</sup> Sir Arnold Wilson, *The Persian Gulf an Historical Sketch from the Earliest times to the Beginning of the Twentieth Century*, Oxford 1928 p. 194

<sup>28</sup> J G Lorimer, *Gazetteer of the Persian Gulf* 1915, p. 54

along both the Arabian and the Persian coasts allowed them to play a strategic role. Their vicinity to the Strait of Hormuz enabled them to influence trade in the Gulf and to emerge as a sea power only matched by the naval power of their traditional rivals, the Omanis; competed for revenue from controlling the flow through the strait and by monopolizing trade through the Gulf.

Soon they were badgering the slow local ships for whatever booty they could manage, attacking their archenemies, the Omanis, and targeting the East India Company rich with spoils. They intensified their marine activities, eventually levied tolls on ships passing through the Strait of Hormuz under their control. Accelerated lawlessness, indiscriminate attacks, and piracy on the ships sailing in the Arabian Sea and the Gulf were by the 1780s on the rise<sup>29</sup>. To some extent, the increase in violence in the Gulf and the Arabian Sea reflected the chaos that ravaged Persia after the death of Nader Shah in 1747 and a manifestation of rapid change of the political situation in the inland of Arabia driven by pious principles. Pirating was perhaps an extension of the prevailing tradition of desert raids, infected with unwarranted violence.<sup>30</sup>

The Wahabi ideology that emerged from the inland deserts of Najd drove the political change in the Arab territories around the Gulf in the second half of the 18<sup>th</sup> century; its supremacy quickly spread beyond Najd to the areas alongside the shores of the Gulf. Their forces besieged Ras Al Khaimah in 1799 and compelled the Qawasims into their fold. The new alliance intensified the prevailed enmity between the Qawasims of Ras Al Khaimah and Oman since Muscat refused to be subjected to the Wahabi's control. The power of the alliance soon

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<sup>29</sup> J G Lorimer, *Gazetteer of the Persian Gulf* 1915, p. 147

<sup>30</sup> J G Lorimer, *Gazetteer of the Persian Gulf* 1915, p. 179

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eclipsed Muscat naval power, and their capture of Bandar Abbas from the Persians assured them supremacy over the Strait of Hormuz and the Gulf for the years to come.

The Qawasims attacked the East India Company's ships even before their alliance with the Wahabis; in 1797, they successfully attacked and captured two vessels, Bassein and Viper, that belonged to the Company.<sup>31</sup> The British and the Indians identified the Qawasims as the main culprit responsible for the rise of plunder and pirating of their ships, but the Qawasims justified their attacks in the context of their war with Muscat. The presence of the Royal Navy in the Gulf to counter the growing influence of the French helped to calm the situation. Attacks subsided, and peace was sustained for the next two years; in general, the whole situation was not unsatisfactory,<sup>32</sup> but not for long.

Attacks resumed once the French threat receded and the British fleet withdrew to India. The British accused the Qawasims of yet another act of piracy when two merchant ships, "Shannon" and "Trimmer" owned by a British Resident in Basra, were taken in 1805.<sup>33</sup> The conflict was resolved amicably after the British sieged Ras Al Khaimah, and a pact between the Qawasims and the East India Company was signed in 1806. The two ships were restored to their British owner in Basra, though virtually strip from their equipment. Al Qawasims, meanwhile, volunteered a vow of good behavior in the future, while the British waived all claims over the Qawasims, called for mutual respect of flags, and allowed their ships to frequent the Indian ports barred in 1805.<sup>34</sup>

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<sup>31</sup> JG Lorimer, *Gazetteer of the Persian Gulf* 1915, p. 54

<sup>32</sup> JG Lorimer, *Gazetteer of the Persian Gulf* 1915, p. 150

<sup>33</sup> JG Lorimer, *Gazetteer of the Persian Gulf* 1915, p. 181

<sup>34</sup> Charles Davis, *The blood-red Arab flag: An investigation into Qassimi Piracy 1797-1820*, p. 97

Once again, violence was resumed. In a series of assaults, native and Indian ships were attacked in the Gulf and the Arabian Sea throughout 1808, killing all who resisted and even those who did not.<sup>35</sup> The capture of the British-owned "Minerva" and the killing of its crew in September 1808 not far from Ras Al Khaimah and the attack on "Sylph" in October 1808 aggravated the situation. As with Shannon and Trimmer, Minerva was owned by the British Resident in Basra. The British again implicated the Qawasims in the renewed attacks on British flagged ships. Although Sheik Al Qassimi confirmed the accident in his narrative, he refuted the accusation against his family based on discrepancies between witnesses' accounts and the report published by the Asian Record in 1809.<sup>36</sup>

Qawasims' demands for a toll to be paid by the EIC fleet to pass through the Strait of Hormuz infuriated the British and were prepared to send troops to the Gulf. Renewed attacks on East India's ships and the prevailing instability in Persia were sufficient pretext for EIC and the British in India for a more aggressive policy in the Gulf. The British attacked the stronghold of the Qawasims in Ras Al-Khaimah in November 1809 with the hope of destroying all piratical activities. Despite the resistance, the town was virtually destroyed and looted after a fierce battle, and an estimated fifty dhows anchored in its port were put ablaze.<sup>37</sup> The attack inflicted heavy damage, but its impact was short-lived. Soon enough, the ships of the East India Company were once again harassed.

In 1814 the two sides exchanged promissory letters, known as "Kolnama," in which both parties agreed to

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<sup>35</sup> Passenger on Minerva to Seton July 1809 (IOR, SPP/383/7)

<sup>36</sup> Sultan Al Qassimi, *AL Qawasims and the British Aggression 1797-1820* (Arabic), p. 190

<sup>37</sup> Sultan Al Qassimi, *AL Qawasims and the British Aggression 1797-1820* (Arabic), p. 190

allow free access to one other port, show mutual respect, and provide aid at sea.<sup>38</sup> Despite the agreement, lawlessness prevailed almost immediately, this time with more intensity and vigor. During the next five years (1815-1819), maritime offenses followed one another in rapid succession on Omani, Persian, native Indians, and on British ships in the open sea, and several ports on the Persian littoral were assaulted, burning, and looting, and killing many villagers. The British Gulf authorities persistently accused the Qawasims of committing a spectacle of offenses during that period. Once again, the Qawasims denied any role in the committed piracies, insisting that the tribal leaders were observing the Kolnama agreement signed in 1814.

By then, political changes to the inland of Arabia were evolving. The Egyptian-Ottoman forces were closing in on Daraeia, the seat of the Wahabi Government, intended to eliminate the movement, and by default, to weaken the power of Qawasims. The British Viceroy in India and his war planner had their own plans to attack Ras Al Khaimah. With the fall of Daraeia, the Qawasims lost their powerful ally and backer and muted their soldiers' pious enthusiasm once the movement was dismantled. The Egyptian invasion fitted well with the British objective; they intended to control Gulf's coast but leaving the inland to other political forces.

The British dispatched the largest maritime expedition ever sent from India to the Gulf against the Qawasims.<sup>39</sup> Thirty warships supported by smaller vessels and more than 3000 soldiers with orders to annulate Qawasims left the Indian shores in early November 1819. Upon arrival, they shelled Ras Al Khaimah for six days. British naval

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<sup>38</sup> Sultan Al Qassimi, *AL Qawasims and the British Aggression 1797-1820* (Arabic), p. 334-3

<sup>39</sup> *Historical Perspectives on piracy: the British Empire in the Persian Gulf*, Aniruddha Bose, Gateway House, March 2013



forces, assisted by the Omanis, landed in early December 1819 and overrun the Qawasims citadel after heavy fighting and stubborn resistance of the Arab fighters. The Qawasims abounded their town and the date garden, and the operation came to an end after inflicting heavy losses on the Qawasims that included the destruction of their entire fleet and the submission of their ruler. The British established a garrison in Ras Al Khaimah, manned with 800 sepoys.

On January 8<sup>th</sup>, 1820, a new treaty was imposed by the British authorities in the Gulf on the seven Arab Trucial rulers of the Gulf's southern littoral (Appendix 1). The "General Treaty with the Arab Tribes of the Persian Gulf" was also signed by Bahrain, by then the central market and the distribution center in the Gulf for dispensing of the stolen properties acquired by the pirates. The provisions of the "General Treaty" bounded the rulers and their subjects to abstain from future plunder and piracy on land and sea except when war between belligerent governments was formally declared. For the first time, it regulated the maritime rules in which all friendly ships bear a red and white flag, a registration paper signed by their chief, and subjected to clearance by the British navy when encountered during their sails. The 1820 Agreement marked the formal inception of responsibility by the United Kingdom for the security of the Gulf.<sup>40</sup>

The General Treaty declared that "If any tribe put to death any persons, either Mohammadans or others after they have given up their arms, such tribe shall be held to have broken peace." The treaty forbade and incriminated transporting of slaves, considered a felony in British Law. It was agreed that "the carrying off of slaves, men, women or children, from the Coasts of Africa or elsewhere, and

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<sup>40</sup> Diplomacy in the Near and Middle East, A documentary Record 1535-1956 J. C. Hurwitz Vol 1, 1535-1914 p. 88

transporting them in vessels is considered plunder and piracy."<sup>41</sup>

Maritime hostilities, though minor and localized, persisted amongst the Gulf Arab states even after the signing of the General Treaty. The local population soon realized the damage and the disturbance that pirating had caused to pearl fishing, considered by many Gulf inhabitants as their essential source of livelihood. A maritime Truce, good for one year, was signed in 1835 between the local Sheiks calling for the cessation of hostilities at sea and forbade wars and pirating during the summer pearling season for that year. The one-year agreement's notable success and benefits encouraged the Sheiks to sign a series of annual Maritime Truces that finally evolved into permanency in 1853 under the British political Resident's mediation. The "Treaty of Perpetual Peace" between the Sheiks themselves declared their desire for "a lasting and inviolable peace from this time forth in perpetuity" and declared collective war and enmity against any pirating state.

The new treaty and the heavy policing by six warships leased by the British Indian Government from the British Royal Navy, paid for by the Indian taxpayers, finally secured the waters between India and the Gulf from piratical expeditions.<sup>42</sup> The Arab Rulers exchanged their rights to declare war at sea for the security of British protection of their territories and their dynasties.

Most of the maritime warfare narratives in the Gulf and the Arabian Sea that happened two centuries ago were recorded by the British alone. Though Britain's historian in the Gulf described the warfare as acts of piracy, their

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<sup>41</sup> Diplomacy in Near and Middle East: Vol 1, 1535-1914: A Documentary Record 1535-1956, Cambridge Archive Edition, p. 88-89

<sup>42</sup> Historical Perspectives on piracy: the British Empire in the Persian Gulf, Aniruddha Bose Gateway House, March 2013

account of Qawasims as pirates was recently challenged by some, most notably the Qassimi scholar and Ruler of Sharjah in the United Arab Emirates Sheik Sultan Al-Qassimi, who sought to refute this conception.<sup>43</sup> He justified the accelerating attacks by Qawasims on Omani ships in the context of their growing conflict between the two powerful naval forces. He rationalized allegations of attacks on the British and Indian ships on the British jealousy of the more agile Qawasims sailing ships and their resentment of their commercial fleet relegated and displaced by the local boats. Or, perhaps as other writers noted, the attacks on the Indian ships were undeclared jihad against the infidel, which seemed to fit conveniently with the perceived tradition of the desert.

Sheik Sultan argued that the violence resulted from a deliberate design by the European powers to dominate and exploit the maritime trade in the Arabian Sea and the Gulf. He stressed that the presence of the armed naval forces was unnatural and had disrupted the peaceful lives of the locals, including their trade and pearl fishing. In his book "Qawasims and the British aggression 1797-1820," the Sheik accused the East India Company of introducing passes to all ships, including local boats, under the pretext of countering pirate activities and slave trades.<sup>44</sup> In his view, the introduction of passes was an opportunity for the Company to reclaim its lost turf in India and Gulf trade. He pointed out that once the British safeguarded the Persians and the Omanis, they steered their activities toward the maritime trades of the Qawasims, the owners of one of the largest fleet of ships consisted of close to 700 small and

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<sup>43</sup> Charles Davis, *The blood-red Arab flag: An investigation into Qassimi Piracy 1797-1820* Introduction

<sup>44</sup> Sultan Al Qassimi, *AL Qawasims and the British Aggression 1797-1820* (Arabic), p. 58

large ships and with the strength of more than 18,000 sailors.<sup>45</sup>

Other Gulf historians accused the British of conducting an unwarranted search of the Arab dhows and ships under the context of eradicating the widespread slave trade, thus effectively constraining Arab traders. Though suppression of slavery was a noble cause, "it was one of the key justifications given by the British for taking control of the water around the Arabian Peninsula, including the Gulf." From the British point of view, "eradication of slave trade would ensure the safety of Britain's own ships and commercial trade routes through the western Indian Ocean."<sup>46</sup>

East India Company was more interested in protecting its ships than suppressing piracy; piracy against others was, to some extent, advantageous to their trade. The Company was not too unhappy with acts of piracies if it did not disturb the British interests.<sup>47</sup> The British attitude toward maritime plunder was evident with the curious case of the most famous pirate of his time in the Gulf, Rahmah bin Jabber. He freely committed piracy and savagery, actively attacked and plundered the local ships, including those from Kuwait, Bahrain, Iraq, Persia, Oman, and India, and caused enormous damage to locals' trades with India, but proved to be a blessing for the British traders.<sup>48</sup> Both Lorimer and Charles Belgrave admitted in their writing that he was never implicated since he

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<sup>45</sup>Sultan Al Qassimi, *AL Qawasims and the British Aggression 1797-1820*, p.58

<sup>46</sup> Dr. Mark Hobbs, *Manumission, Not Abolition: British Mediation over Slavery in the Gulf*. Qatar Digital Library <https://www.qdl.qa/en/manumission-not-abolition-british-mediation-over-slavery-gulf>[accessed 24 April 2020]

<sup>47</sup> *Historical Perspectives on piracy: the British Empire in the Persian Gulf*, Aniruddha Bose Gateway House, March 2013

<sup>48</sup> Sultan Al Qassimi, *AL Qawasims and the British Aggression 1797-1820* (Arabic), p. 276

protected British trade, allied with the British in their attack on Ras Al Khaimah,<sup>49</sup> and “showed remarkable prudence in abstaining from offenses against vessels under the British flag.”<sup>50</sup>

## **Expansion of the Ottoman Empire in the Gulf**

Sultan Salim’s conquest of Syria on the Mediterranean, Egypt on the Red Sea in 1517, and Mesopotamian cities of Bagdad and Basra in 1546 enabled direct Ottoman access to all three waterways that connected the two continents and placed all the ancient land routes in Turkey’s hands. Despite the extreme importance of the land routes, their relevancy had eroding; it was no match for the sea route around Africa. Nonetheless, the Turks modernized and secured the caravan road that connected Basra to Aleppo and concluded an agreement in the 16<sup>th</sup> century with the Portuguese to integrate the sea-land route through the Gulf. The Turks intentionally choked the Persian trade and disconnected Persian silks to reach its traditional terminal in Aleppo.

The subjugation of Bagdad and Basra by the Ottoman Empire marked the beginning of their long domination of Mesopotamia. Though Turkey’s reign was intermittently interrupted by the Persian occupation and the Mamalek rule (1750-1831), their authority lasted till their defeat in World War One in 1918. They reached the Gulf just a few years after the arrival of the Portuguese and fiercely competed with the Portuguese for trade and domination in the Indian Ocean, the Red Sea, and the Gulf. They plunder Portuguese ships in the mid-16<sup>th</sup> century routing most of the species to the port of Alexandria on the Mediterranean coast under their control. Their rivalry with the

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<sup>49</sup> Charles Belgrave, *The Pirate Coast* p. 129

<sup>50</sup> JG Lorimer, *Gazetteer of the Persian Gulf* 1915, p. 183

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Portuguese was not limited to trade; they felt compelled to protect Indian and Arab Muslim pilgrims from Portuguese attacks. However, their attempts to avenge the killing of pilgrim ships in the Red Sea were not successful.

To sustain their naval rivalry with the Portuguese, Turkey occupied the southern littoral of the Gulf in 1552 and settled on Al Hasa's coast, an earshot from Bahrain dominated by the Portuguese. They bombarded Muscat in 1546 and in 1552 occupied the town but lost it in 1580 to an Arab expedition sent from Aden. Despite frequent scrimmages with the Portuguese in the Gulf and the Arabian Sea, the Turks were disheartened by their inability to dislodge the Portuguese from Bahrain or the all-important Strait of Hormuz. Ultimately, the Ottomans were expelled from Hasa more than a century later, in 1669, by the local population, angered by the high taxes.

The demise of the land route and the decline of the Ottomans' hegemony in Iraq during the Mamalek rule diminished their presence in the Gulf, other than Basra and Mesopotamia. It was only in the early 19<sup>th</sup> century that they return, this time in reaction to Wahabis' expanding power that spread from the deserts of Najd. Despite initial hesitation, Wahabism's advance promoted the Ottoman Viceroy of Egypt, Mohmmad Ali Pasha, under instruction from Istanbul to invade Hijaz on the Red Sea. In 1811 his troops infiltrated the interior of Arabian deserts occupying the entire northern part of the Arabian Peninsula. Under the command of his son, Ibrahim Pasha, the Egyptian army sacked Daraeia, the seat of the Wahabi Government, in 1818. They attacked and once again occupied Al Hasa, including the ports of Qatif and Uqair on the southern littoral of the Gulf. The sacking of the Wahabi was the signal the British in India were anticipating; just a year later, the British navy attacked Al Qawasims and occupied Ras Al Khaimah.

The brutal occupation of Najd and Al Hasa by the Egyptians eventually met with residual resistance that weakened their grip on the population and the administration of the province. They nonetheless challenged British supremacy in the Gulf, and despite their assurance to the British representative in Cairo, they were by 1838 seriously contemplating a plan to attack and occupy Bahrain. The British Secretary of State warned the Pasha that any advance made by him toward the Gulf could not be viewed with indifference.<sup>51</sup> British ships blockaded the ports along Hasa's coast and forced the Egyptian army to retreat partly as a result of a severe food shortage, and more importantly, the collapse of Mohammad Ali's Empire. The Egyptian general withdrew his army from Najd and Hasa's coastal town back to Egypt in March 1840.

Until the Ottoman-Egyptians' attack on Daraeia, the Arab side of the Gulf was of the least concern for the Turks. They were more concerned with peace negotiation with Persia, with international commerce and internal development that included Iraqi's river transportation than with its relationship with the Arab territories of the Gulf. Their attitude only changed in 1869 with the arrival of the new Governor of Iraq, Madhat Pasha.

Madhat Pasha's ambition was to revive the Ottoman Empire's hold over Hasa and dominate all the Arab territories on the Gulf coast. Despite the dire financial state of the Ottoman Empire and their precarious situation in its European territories, the new Governor was contemplating a military expedition to check the British expansion and to extend Turkey's influence from Kuwait to Muscat and inland to Central parts of Arabia.<sup>52</sup> Pasha's attitude to expand into Arabia became a vital part of

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<sup>51</sup> Sir Reader Bullard, *Britain and The Middle East from Earliest Times to 1952*, Hutchinson's University Library p. 41

<sup>52</sup> JG Lorimer, *Gazetteer of the Persian Gulf* 1915, p. 243

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Porte's policy; they were determined to regain their influence in Arabia encouraged by the pious sympathy of the local population toward the Khalifa in Istanbul, and somewhat to make up for the rapid loss of their territories in Europe and the Balkans.

Under the pretext of establishing law and order and settling the ongoing power struggle in Najd, Turkish forces launched a land and sea expedition in May 1871 to Hasa's coast. Turkish naval forces left Basra with an old steam-powered ship with more than 5000 of their armed troops and accompanied by some influential Arabs from Basra. According to Lorimer, "the bulk of the transport must have been provided by the Sheik of Kuwait, who was subsequently found to have joined the expedition in person with 300 vessels<sup>53</sup> belonging to his port."<sup>54</sup> They landed in Ras Tunra, not far from the island of Bahrain, and occupied Qatif and Dammam on the coast of Hasa with relative ease. A detachment of the Turkish army landed in Doha and occupied Qatar; the Sheik of Qatar accepted the Turkish flag to be flown over Doha, but no administration changes were enforced. The tribal relationship prevailed, and the Sheik continued to rule in the capacity of the Turkish title of Qaim-Maqam.<sup>55</sup> They were eventually ousted from the province of Hasa by King Abdul Aziz in 1913, a year before the breakout of World War One.

Despite the British maritime superiority and their irritation with the Turkish expedition, their naval forces surprisingly did not interfere in the Turkish naval attack on Hasa and Qatar. The British, frustrated with the rapid loss of the territories under their influence, informed Porte

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<sup>53</sup> Madhat Pasha stated in his book that he borrowed all the pearl diving ships from Kuwait, estimated at 80 ships rather than 300 ships stated in Lorimer Gazetteer. Most likely Lorimer figure were somewhat exaggerated.

<sup>54</sup> JG Lorimer, *Gazetteer of the Persian Gulf* 1915, p. 968

<sup>55</sup> JG Lorimer, *Gazetteer of the Persian Gulf* 1915, p. 803



that they did not admit Turkey's sovereignty rights over Qatar's coast or any other region except for Hasa. They warned that they would not view with indifference attempts by Turkey to expand their influence to Abu Dhabi and Oman. Evidentially, Madhat Pasha's extended stay in Kuwait before the Turkish attack on Hasa and the support and assistance, whether willingly or involuntarily, that Sheik of Kuwait provided to the Turkish forces raised the question of Kuwait's status in the British and Turkish minds. "Kuwait was assumed to have been incorporated in Turkey on the same occasion."<sup>56</sup>

The presence of the Ottoman Empire in Iraq and the Arab region around the Gulf was not limited to territorial or political influence. Istanbul was home to the Muslims' Caliphate since they defeated the Mamalek and occupied Cairo in the 16<sup>th</sup> century. Even in the time of conflicts, the undercurrent relationship was of respect for their position as the leader of the Muslim world that included widespread public sympathy during the War.

## **Exclusive Agreements**

The General Treaty, signed in 1820, placed the southern littoral of the Gulf as a dependent of the British Colonial Empire and marked the formal inception of the United Kingdom for security in the Gulf.<sup>57</sup> As trade fostered and multiplied once peace was established, rulers became more affluent. Their need to secure their personnel position and fortify their territories in the face of outside attacks and internal adversaries became more urgent. Most Arab chiefs willingly relinquished part of their independence to conduct foreign affairs in exchange for

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<sup>56</sup> JG Lorimer, *Gazetteer of the Persian Gulf* 1915, p. 243

<sup>57</sup> *Diplomacy in Near and Middle East: Vol 1, 1535-1914: A Documentary Record 1535-1956*, Cambridge Archive Edition, p. 88

explicit protection committed by the British in the 1892 “Exclusive Agreement.” Rulers committed to cede all their rights to deal with any other power and pledged not to receive other countries’ representatives without the British authorities’ consent. On the other hand, the British authorities in the Gulf were adamant, though unsuccessful at times, to dodge intervention in the internal affairs and administration.<sup>58</sup> They avoided as far as possible to be drawn into the affairs of the Arabian Peninsula, its intricate tribal affairs, and the perpetual feuding between the tribes but to no avail.

British consolidation of their position in the Gulf fitted well with their policy of the 19<sup>th</sup> century, that is, to exert control over the region with minimum investment, monopolize trade, and keep rival Europeans from ecumenic gains or a foothold on the Gulf that could threaten British sea route to India. By the end of the century, its navy kept the Gulf waters safe and had, under the 1892 treaty, ensured the exclusion of all other powers from the Arab coastal territories.

### **The seat of Power: The Imperial Authority**

More than a century and a half after EIC founded their factory in Bandar Abbas, the British were finally ready in 1763 to move north to the coastal city of Bushire closer to Shiraz, the new Capital of Persia after the assassination of Nader Shah. The commercial Residency under EIC’s authority was temporally relocated to Basra in 1769 but was back in 1778 to Bushire. In the absence of a British or Indian Government representative in the Gulf, the commercial Residency at Bushire was replaced in 1812 by a political agent but remained under EIC custody. A

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<sup>58</sup> Simon Smith, *Britain’s Revival and Fall: Kuwait, Bahrain, Qatar, and the Trucial States, 1950-71*, Routledge Curzon p. 3

decade later, "the various stations around the Gulf followed suit; all factories were denominated residents, and the entire establishment was rendered a political charge."<sup>59</sup> The old factories' role was promoted from its historical role as a trading hub serving its commercial activities to the center of diplomacy and political influence. The Residence in Bushire, labeled by the Viceroy of India, Lord Curzon as "the uncrowned king of the Persian Gulf,"<sup>60</sup> ruled over almost the whole territories surrounding the Gulf assisted by the Political Agents' offices in different cities. He arbitrated some disputes between the various rulers and conducted all diplomatic feats in the region well into the 20<sup>th</sup> century. Backed by a Persian Gulf Squadron, he patrolled the Gulf water, enforced the 1820 General Treaty, imposed Pax Britannica in the Gulf, and maintained law and order.<sup>61</sup> Lord Curzon described EIC Resident's role with perhaps a grain of exaggeration as "the dispatches of statement men"<sup>62</sup> rather than ledgers of merchants.

In reaction to the Indian uprising, the British Government transferred the assets and functions, including the Residency in the Gulf, from EIC custody to the British Crown under the provisions of the "Government of India Act" passed by the British Parliament in 1858. It ended EIC's rule in India and by default in the territories around the Gulf. The India Act ushered a new era of "British Raj" controlled by the British Government until the Indian partition in 1947.

Great Britain established their first Agency on the Arabian shores in Muscat in 1778, and in 1798 they signed the first alliance agreement with the Imam of Muscat to

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<sup>59</sup> George Curzon, *Persia and The Persian Question* v2 p.553

<sup>60</sup> George Curzon, *Persia and The Persian Question* v2 p.451

<sup>61</sup> Paul John Rich, *Creating the Arabian Gulf: the British Raj and the invasion of the Gulf*, introduction p. ix

<sup>62</sup> George Curzon, *Persia and The Persian Question* v2 p.553

## THE EUROPEAN CONQUEST

exclude French influence in the region and dismantle Napoleon's plans for a naval attack on India. By 1810 the Company had established separate Agencies in Bagdad, Muscat, and Basra, subordinated to the Resident's office in Bushire. They soon expanded to Bahrain, Dubai, Abu Dhabi, Lingeh, and Sharjah, and in 1904 in Kuwait and Doha. They provided advice and influence on a daily basis, but their attempts to implement the British-Indian Government policy of refraining from interfering in the internal administration of the state was at times tempting and other times unavoidable. Although their job was to protect the British interest and enforce treaties, their cozy relation and their personnel contact with the Rulers, as described by Sir Rupert Hay, was "an outstanding feature of the British position in the Persian Gulf."<sup>63</sup> They developed moral and political authority in the Arab Gulf territories, which eventually led to their influence over the rulers and the merchants. At times, the British/Indian policies showed "more avarice than wisdom" that ultimately led "to the distribution of the new wealth with disgusting inequality."<sup>64</sup> These policies were evident in the case of the British-Indian Government's insistence that all oil concessions with the oil companies were signed with the Gulf rulers rather than their governments.

The display of British pomp and the dispensing of British honors to the rulers and those close to the local British bureaucracies became a means for the British political authorities to win and keep control.<sup>65</sup> Awards and distinctions were taken very seriously by the local Sheiks. Viceroy of India wrote to London that "small favors and

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<sup>63</sup> James Onley, *Britain and Gulf Sheikdoms 1820-1971: The Politics of Protection* p.3-4

<sup>64</sup> Paul John Rich, *Creating the Arabian Gulf: the British Raj and the invasion of the Gulf*, p. 50

<sup>65</sup> Paul John Rich, *Creating the Arabian Gulf: the British Raj and the invasion of the Gulf*, p. 50

marks of honor bestowed from time to time by the British Government on the head of the family (such as an additional gun to his salute, medals or titles) are highly prized.”<sup>66</sup>

Until their final departure in 1971, Britain dominated the Arabian shores of the Gulf through treaties with the Sheiks and the Rulers of the territories. The long years of British supremacy of the region, the pacification of unlawful activities, and the continuous British naval surveillance finally paid off. Oil concessions meant that the British had a pole position to benefit from the extensive oil discovery.

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<sup>66</sup> Paul John Rich, *Creating the Arabian Gulf: the British Raj and the invasion of the Gulf*, p. 40

## **2 The Covert Treaty**

On a fall day in November 1913, the Royal Navy HMS Sphinx sailed in the calm waters of the Gulf and entered the small port on the Bay of Kuwait. The clear blue waters and cool gentle sea breeze of November were a pleasant reminder that the hot summer was at last over and, along with it, the last few days of pearl fishing season. The stunning beauty of the red sun as it reflects on the turquoise and motionless waters induced serenity and silence as darkness sets. The view of the land and the town from the approaching Royal Navy ship was of a small village, lined with mud homes built so intimately close, almost inseparable, and monotonously part of the light brown sand. Other than the blue color of the sea, few palms, and the thorny Sidr trees, with sour and bitter fruit (cover picture) scattered between the houses. The sandy and long coast were dotted with fishing traps typical of the region and crowded with the dhows' white sails and the larger dark brown wooden Bagalas used for long hauls to nearby ports in the Gulf and India, and the east coast of Africa.

## KUWAIT IN THE TIME OF BRITISH EMPIRE

On board, the Rear-Admiral Sir Edmond Slade, the Navy Commander-in-Chief, was accompanied by the first geological surveying team to visit the Gulf region to inspect the desert dunes where traces of bitumen had seeped to the surface. The visit was inspired by D'Arcy's success in striking oil after a long and tedious effort in Masjid Suliman in southern Iran five years earlier. It had encouraged the British Company to speculate on finding oil elsewhere, perhaps in the deserts of Kuwait and in Bahrain. A member of the team was Sir John Cadman, a mining engineer who became the influential head of Anglo Persian Oil Company.

Kuwait's location on the northern tip of the Gulf with a deep harbor and long coastline made it perhaps one of the best natural harbors on both shores of the Gulf. Its vicinity to Mesopotamia's waterways gave it an advantage in establishing trade as early as the eighteenth century from the ports of Kuwait and Basra to India, East Africa, and Europe. With no natural resources, except for pearls as the only exportable commodity, Kuwait's mercantile importance was its shipping fleet. Graceful ships were built with woods imported from India by artful carpenters, set to sail to Basra, Zanzibar, Bombay, and Karachi, and returned after seven months journey with goods to be transited to the markets of the region.

The bay of Kuwait complemented the port of Basra as the terminus of a large caravan route<sup>67</sup> on their way to Aleppo in Syria. As its transit trading developed, goods were imported and exported to the neighboring towns, to Abadan, Basra, and Dammam. Eventually, each of these towns had a Souk Al Kuwait that sold goods imported, or most likely smuggled, from Kuwait to those markets, dodging the import taxes well into the 1960s. The town itself had developed a reputation for a friendly and

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<sup>67</sup> A de Rush, Introduction to Records of Kuwait 1899-1921 p. xxi

## THE COVERT TREATY

amicable trade relationship with the Bedouins traveling from the interior of Arabia to Kuwait since the 18th century, eventually became the marketplace for the desert folks during their annual stocking of their needs.

Although the local population relied on trade relationship with the Bedouins as a source of income, it was the exhausting burden of fishing for pearls that was the primary provider of livelihood for much of the population and the sole source of capital needed for the acquisition of consumable goods for the local market and to support the surrounding desert population.<sup>68</sup> The British Political Agent in Kuwait best described diving for pearls during the dry and hot summer season as “no harder life in the world than diving for pearls in the Persian Gulf.” Diving without suits or gears, under the fierce heat and the ever-present danger of sharks and stinging rays, many inevitably died from the relentless effort and frequent diving.<sup>69</sup>

The town’s economic and social hierarchy was largely a reflection of the pearling and mercantile enterprises. The old merchants’ establishment who migrated from Basra in the late 18<sup>th</sup> century developed an active maritime transit business. They linked the productive centers (Iraq, Persia, and India) to consumers in nearby markets and other ports, not necessarily limited to Kuwait. Jaqueline Ismael noted in her book, *Kuwait Dependency and Class in Rentier State*, “the merchants connected to Kuwait’s markets through a network of local middlemen and merchants with their interests limited to subsistence consumption and narrowly defined in terms of the local market and the nearby deserts.”<sup>70</sup>

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<sup>68</sup> Jacqueline Ismael, *Kuwait Dependency and Class in Rentier State*, p 58, University Press of Florida

<sup>69</sup> Dickson, H. R. *The Arab of the Desert*, p.485

<sup>70</sup> Jacqueline Ismael, *Kuwait Dependency and Class in Rentier State*, p 56, University Press of Florida



## KUWAIT IN THE TIME OF BRITISH EMPIRE

Although Kuwait had a strong secular influence, continuous interaction, trade, and marriage between the conservative Bedouins and the more liberal sea goers and town residents were commonplace. Bedouins' life was ruled by a unified code, laws, and customs of the deserts, little changed over hundreds of years, oblivious to the technological progress of the nineteenth century, with perhaps the exception of replacing swords with the English guns. Politically, they were indifferent to the western-style border; instead, the tribal supremacy over a region was their ownership of the precious commodity of water wells and where camels and livestock grazed. Traditionally, they were semi-independent from the civil rulers, but they were the fighting force whence called upon and where they felt their shifting loyalty lay. They paid their annual dues of Islamic tax of Zakat, sometimes reluctantly, to the tax-gatherers authorized by the ruler in exchange for protection and defense in case of being raided.

In Kuwait, towns were few and far apart, the living standard for most of its inhabitants was low, and most of the people lived in mud houses that were susceptible to the seasonal rains, though rare, it did pour. According to the Governor of Iraq, the town had had in 1870 around five to six thousand houses.<sup>71</sup> Its drinking water was in the early days from the wells described by a British visitor as "infamously bad in quality, being at once salt, sweet and bitter."<sup>72</sup> Eventually, water from wells was replaced by freshwater imported by boats from nearby Shatt Al Arab in southern Iraq to satisfy the growing population who

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<sup>71</sup> Madhat Pasha report in 1871, cited in Anscombe, Frederick, *The Ottoman Empire in Recent International Politics- the case of Kuwait*, p. 553

<sup>72</sup> J G Lorimer 1915, *Gazetteer of the Persian Gulf V1*. Historical 1A & 1B p.1004

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migrated to Kuwait from the neighboring countries and the deserts nearby.

Kuwait's stability is manifested in the fact that, except for Sheik Mubarak, its rulers had come to power in an orderly manner. Its citizens did always pledge their allegiance to the new ruler once chosen. Its prominent prosperity was perhaps a consequence of the rulers' mildness, stability, neutrality, and the cohesion of the country's population. There is little interference by the officials with their daily lives, and punishments were rare. The Sheik exercised political authority, but judicial power belonged to the judge alone.<sup>73</sup> The visiting Political Resident in the Gulf, Lewis Pelly, in 1865 characterized the ruler as fair-minded; and "its thriving markets attended by local Arabs and Persians as a manifestation of free trade."

In his book, Ghassan Salame noted that Kuwait was "a harbor city of merchants which prospered by depoliticizing itself, playing a limited and preferably financial part in the conflict that shook eastern Arabia in the nineteenth century."<sup>74</sup> The town itself was surrounded by a gated protective wall from desert raids and the fast-spreading pious movement of central Arabia. It had a prominent merchant tradition with its outlook toward the open sea that bred tolerance that came with interaction with other social entities. The liberal bias of the merchants' community was strongly influenced by the attitude of the people of Basra and India, and many of the local customs, habits and even food were affected by the surrounding territories and western India's coastal towns.

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<sup>73</sup> J G Lorimer 1915, *Gazetteer of the Persian Gulf* V1. Historical 1A & 1B p.1011

<sup>74</sup> Ghassan Salame, *Democracy without Democrats? The Renewal of Politics in the Muslim World*, p.92

## **The Ambiguous Relation with the Ottoman Empire**

110Kuwait's relation with the Ottoman Empire in the 19<sup>th</sup> and the early 20<sup>th</sup> century became central to its very existence. Claims over Kuwait by the Iraqi Governments in the twentieth century that developed into scrimmages, threats, and eventual occupation were all had their roots in Kuwait's ambiguous association with the Empire.

Kuwait's neutrality and independence before 1871 served the needs of the Turks and the British. The Turks considered Kuwait as a safe place to drop the Turkish troops and the Arab personnel, while for the British, Kuwait replaced Zubair for their administration in southern Iraq during the brief Persian occupation of Basra in 1775, and a terminal for the dispatch of the British desert mail from the Gulf to Aleppo<sup>75</sup> and London. The town, noted by the British Consul in Aleppo in 1776, was "well situated to serve as a substitute" while remaining independent. It became an alternative route for caravans and eventually supplemented Basra as a point of embarkation; "Caravans may be made no doubt to and from thence to, for as long war will cause loss of Basra."<sup>76</sup>

Kuwait served as a fallback for Basra on more than one occasion. British Agency moved to Kuwait during unrest in southern Iraq or during their conflicts with the Turks. It flourished during Basra's misfortune; its momentary prominence as a vital entrepot and its short-lived prosperity in the 18<sup>th</sup> century resulted from Basra's

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<sup>75</sup> J G Lorimer 1915, Gazetteer of the Persian Gulf V1. Historical part 1A & 1B p.1002

<sup>76</sup> British Consul in Aleppo to Mr. Latouche of the East India Company at Basra, 11<sup>th</sup> June 1776, Factory Records, India Office, cited in Creating the Arabian Gulf: The British Raj and the Invasion of the Gulf, Paul Rich p. 27

difficulties, but to a certain extent, a reflection of Kuwait's independence.

The perception of the vassalage of Kuwait under the Ottoman Empire was never supported. Other than some annual tributes, no legal treaties or political agreements between Sheik of Kuwait and the Wali in Basra, the Governor of Bagdad, or the Porte were ever signed. The Ottoman Empire's tenuousness over Mesopotamia in the 18<sup>th</sup> century made it hard for them to extend their power outside Basra's province, while Kuwait was entirely developed outside the weak Ottoman grip, whose authority did not extend far.<sup>77</sup> Perhaps the first recorded tribute was in 1829; the Sheik was obliged to pay an annual payment or the Islamic Zakat while receiving a dress of honor.<sup>78</sup> But not for long; there were no records of any tribute paid by the Sheik of Kuwait to Turkey in 1863.<sup>79</sup> Except for a judge (Kazi) on the Turkish payroll to administer the Islamic law and represent the Khalifa's sacred authority, no other administration officers were present.

Kuwait's independence from Turkey was manifested in the fact that it was a safe haven outside Basra's unstable province, but more to the point, its trade was never limited by the Capitulation treaty between the Europeans and the Ottoman Empire. Unlike Basra, its business was managed by the local inhabitant rather than Europeans privileged by the Capitulation rules; the Dutch Council in Bushire described Kuwait in 1870 as the only Arab trading port in the Gulf.<sup>80</sup> Even Madhat Pasha, the prominent Wali of

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<sup>77</sup> Ben Slot, *Kuwait the Growth of Historical Identity* p. 13, quoting Olfert Dapper, *Beshrijving van Azie behelzende de gewestern van Mesopotamia* Amsterdam 1680, p. 145

<sup>78</sup> Busch, Briton Cooper, *Britain and the Persian Gulf, 1795-1880* p. 33

<sup>79</sup> J G Lorimer 1915, *Gazetteer of the Persian Gulf* V1. Historical part 1A & 1B p.1013

<sup>80</sup> Ben Slot, *Kuwait the Growth of Historical Identity* p. 14, quoting Report of the Dutch Council Richard Keun, April 15<sup>th</sup>,

Bagdad, admitted to Kuwait's independence status and administration.<sup>81</sup> He noted that "Kuwait is independent and is a semi-republic whose people insist on maintaining their independence and reject any connection with the Ottoman Empire. Their trade is free and active and does not accept any employees or soldiers."<sup>82</sup> Likewise, his son affirmed his father's attitude stating that "Kuwait as an independent aristocratic merchant republic."<sup>83</sup> Nonetheless, Kuwait's political inclination was attached to Turkish Iraq,<sup>84</sup> influenced by Istanbul's pious leadership. Colonel Pelly, the British Resident, reflected British attitude in 1863, noting Kuwait's status at that time as "territories nominally recognized under the suzerainty of the Turkish Government, but practically independent under their own chiefs."<sup>85</sup>

The possibility of Kuwait losing its independence was never too far-off, as noted by the British Political Resident in Bagdad. He observed that the "prescriptive freedom of Kuwait might shortly become a thing of the past."<sup>86</sup> The temptation to extend Basra's control over Kuwait was not too remote from the Turkish mind. Turkey realized the importance of Kuwait harbor; Mehmed Ali, a former

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1870, The Journal of the Dutch warship that visited Kuwait in 1870

<sup>81</sup> Anscombe, Frederick, The Ottoman Empire in Recent International Politics- the case of Kuwait, p. 552

<sup>82</sup> Ahmad Abu Hakima, The Modern History of Kuwait: 1750-1965. McGill University, Montreal 1982

<sup>83</sup> Ben Slot, Kuwait the Growth of Historical Identity p. 13, quoting, Madhat Pasha son, Ali Hayder Midhat beg in his book, "The life of Madhat Pasha from Private Documents and Reminiscences"

<sup>84</sup> J G Lorimer 1915, Gazetteer of the Persian Gulf V1. Historical part 1A & 1B p.1010

<sup>85</sup> Arabian Boundary Disputes, Edited by Richard Schofield Vol 5 Iraq-Kuwait II, 1941-1992 p.268

<sup>86</sup> J G Lorimer 1915, Gazetteer of the Persian Gulf V1. Historical part 1A & 1B p. 1013

## THE COVERT TREATY

Musharraaf of Basra, stressed that "Kuwait harbor is extremely important, where big enemy ships may take shelter; their troops could land there, besiege and capture Basra from the south within few hours and cut and destroy communication between Najd and Basra."<sup>87</sup>

The fact that the Turkish repeated attempts to legitimized their claim of sovereignty over Kuwait was perhaps an admission of Kuwait's separation from their rule. The Turkish Governor of Iraq Namiq Pasha's desire to convert the nominal suzerainty over Kuwait into full control before the arrival of Madhat Pasha was constrained by Turkey's military weakness and by the fragility of its financial capabilities. Nonetheless, the possibility of a loss of its nominal independence was resented by Kuwait's population, "people of Kuwait," As noted by the British Political Agent in Basra, "would rather abandon the place than submit to the Turkish rule."<sup>88</sup>

The assumption of Sheik Abdulla (1866 to 1892) as the new ruler of Kuwait after his father's death and the arrival of Madhat pasha as the new Wali (governor) of Bagdad in 1869 brought the two sides closer. Unlike their father, Sheiks Abdulla and later his brother Sheik Mohammad (1892-1896) maintained an intimate relationship with the Turks. Sheik Abdulla received Madhat Pasha with pageantry on his visit to Kuwait in May 1871 on his way on a Turkish warship to capture the province of Hasa and establish Turkish authority on the southern shores of the Gulf. The Sheik personally accompanied the expedition and provided (depending on the source) 80 or 300 local

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<sup>87</sup> Gokhan Cetinsaya, Ottoman Administration of Iraq, 1890-1908, p134

<sup>88</sup> Historical Note on Iraq claim to Kuwait, July 19<sup>th</sup>, 1961, Arabian Boundary Disputes, Edited by Richard Schofield Vol 5 Iraq-Kuwait II, 1941-1992 p.268

ships<sup>89</sup> to transport the bulk of the Turkish Army to the shores of Hasa.

With a recommendation from the influential Madhat Pasha, the Porte rewarded the Sheik with the honorary title of Qaim-Maqam and allowed Kuwait to fly the Turkish flag on the Sheik Palace and its ships. However, unlike every other part of the vast Empire, Kuwait's citizens were exempted from military subscription and were not liable to pay the Sultan's taxes. Porte assumed that once it bestowed the title of Qaim-Maqam upon the Sheik and hoisted the Turkish flag over the palace and the local ships, Kuwait was "established beyond a reasonable doubt an Ottoman territory." The perception of the Ottoman's rule over Kuwait gained ground; the Turkish Government assumed that "Kuwait had been annexed at the same time as Hasa."<sup>90</sup>

Despite the strong socio-economic ties with southern Iraq,<sup>91</sup> there were practically no signs of Kuwait's subordination; it was neither politically dependent upon nor answerable to Basra. The forces never occupied Kuwait, and no troops were ever stationed on its soil, while Sheik Abdulla firmly rejected the Pasha's suggestion to build a Turkish garrison in Kuwait. The nature of the tie continued to be disputed and ambiguous.

## **The Reign of Sheik Mubarak 1896-1915**

Sheik Mubarak was a part of the trio that jointly ruled Kuwait during the reign of his brother Sheik Mohammad;

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<sup>89</sup> 300 ships in accordance with Lorimer Gazetteer, of the Persian Gulf vol 1, Historical part 1A & 1B p.1014, or 80 ship in accordance to Midat Pasha, The Othman Archives

<sup>90</sup> J G Lorimer 1915, Gazetteer of the Persian Gulf V1. Historical part 1A & 1B p.1014

<sup>91</sup> Anscombe, Frederick, The Ottoman Empire in Recent International Politics- the case of Kuwait, p. 554

he served as the chief of the Army responsible for the security of the desert. He came to power in May 1896 after slaying his two brothers Mohammad Pasha, the reigning ruler, and Sheik Jarrah. Whether Sheik Mubarak's motives were due to public or domestic differences was long speculated.<sup>92</sup> Different interpretations of the event by local historians and the British authorities have attributed his act to the dissatisfaction with his brother's poor governance and his alienation of the Turkophile's attitude adopted by his brothers' advisor. Others blamed it on his financial ambition, personal matters,<sup>93</sup> and his dissatisfaction with his annual allowance.<sup>94</sup> Rumors were even circulated in Constantinople that the British Resident in the Gulf instigated the Sheik to slay his brothers during an alleged secret visit to Bushire. The Political Resident rebuffed the rumor as "not only absolutely without foundation, but ludicrously improbable."<sup>95</sup>

Unlike his brothers, he foresaw the necessity to extend inland to boost his territory domain and bolster his influence on the desert tribes and expand trade to serve his commerce, rather than limiting Kuwait's hopes and future on marine activities alone.<sup>96</sup> He transformed the Sabah rule from a community leader to an autocratic and centralized structure.<sup>97</sup> He nonetheless failed in his aspiration to expand significantly into the surrounding

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<sup>92</sup> J G Lorimer 1915, *Gazetteer of the Persian Gulf* V1. Historical part 1A & 1B p.1016

<sup>93</sup> *The Kuwait Crisis: Basic Documents*, Edited by E. Lauterpacht, C. J. Greenwood, Marc Weller, and David Bethlehem p.6

<sup>94</sup> Al Ganaie Yousef, *Pages from History of Kuwait* Arabic p 26

<sup>95</sup> Political Resident Report dated October 3<sup>rd</sup> 1896, *Arabian Geopolitics, The Iraq-Kuwait dispute 1830-1994* v5, p.40

<sup>96</sup> Khazal Hussain, *Kuwait Political History* v1, p156 Arabic

<sup>97</sup> Jacqueline Ismael, *Kuwait Dependency and Class in Rentier State*, p 55, University Press of Florida



deserts; his unsuccessful attempt to occupy Serif west of Kuwait in March 1901 and his conflicts with his powerful neighbors eventually limited his political influence in the area.

Porte was disturbed by the news out of Kuwait but remained "unwilling under the circumstances to cause a new complication to arise, decided to ignore the cause of the assassination." They prudently instructed the Governor of Basra to avoid bloodshed in Kuwait.<sup>98</sup> Porte decided on neutrality but withheld recognition of Sheik Mubarak's rule despite his declaration of loyalty to the Sultan on his accession to power.

The Sheik position in his early days was precarious and exceptionally vulnerable. Without external support, he was continuously challenged by the fugitive family members and was harassed by the slain Sheiks' associates. He succeeded in a couple of years to resist the frequent intrigues by the ousted Sheik family and managed, despite the backing of Hamdi Pasha, the Ottoman Wali of Basra, to repel repeated attacks, including a boat expedition by Sheik Mubarak's enemies and their entourage in the summer of 1897. Hamdi Pasha had at one time or another advocated military occupation of Kuwait, but the Sultan refused, stating that "it was neither worth the risk nor the expenses."<sup>99</sup> Ultimately, Hamdi Pasha's petition to assume direct control over Kuwait led to his dismissal. It was rumored that the gifts Sheik Mubarak lavished on the Turkish officials in Bagdad and some in Constantinople helped the Sheik prevail. Still, Sultan Abdel Humid was slow to acknowledge Sheik Mubarak as the Qaim-Maqam

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<sup>98</sup> Report by Mr. Stavrides, Legal Advisor to the British Embassy in Constantinople dated June 30<sup>th</sup>, 1896. Arabian Geopolitics, The Iraq-Kuwait dispute 1830-1994 v5, p.40

<sup>99</sup> British Ambassador, Constantinople, to Secretary of State for Foreign Affairs, September 13<sup>th</sup>, 189, F.D.S.P. no. 19 November 4<sup>th</sup>, 1899

of Kuwait. Not until a year later, in July 1897, that he referred the matter to the Council of Ministers, and the Porte finally issued the Imperial Irade in December 1897 that recognized the Sheik as the Qaim-Maqam of Kuwait.<sup>100</sup> The Sultan appointed Sheik Mubarak in 1900 as "Miri Miran," or Pasha, and conferred on him the "Order of Imtiaz."<sup>101</sup>

Sheik Mubarak's endeavored to achieve independence from Turkey, but his sentiment and those of Kuwait's people were never hostile. It was instead founded on due respect and admiration for their power and their Islamic leadership. The Ottoman Khalifa was, after all, the religious leader of all the Muslims.<sup>102</sup> The local population recognized the Turkish flag hoisted over the Ruler's palace<sup>103</sup> and the Kuwaiti ships with permission conferred by the Turkish Government in 1871 until the breakout of WW1 as a symbol of Muslim identity.

## **The Time of The British Domination**

Despite Britain's virtual monopoly of the waters and the territories surrounding the Gulf, their influence in Kuwait, except when combating piracy and arms trafficking off its

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<sup>100</sup> The Kuwait Crisis: Basic Documents, Edited by E. Lauterpacht, C. J. Greenwood, Marc Weller, and David Bethlehem p.6

<sup>101</sup> Sir Maurice de Bunsen, Secretary in HM Embassy in Constantinople to Salisbury, London October 9<sup>th</sup>, 1900, Home 2511/00

<sup>102</sup> Extract Translation of Madhat Pasha by P. Cox, sent to The Secretary to the Government of India in the Foreign Department, Calcutta, From Political Resident in the Persian Gulf, number 3168 dated December 3<sup>rd</sup>, 1910. File 11. Iraq (3) v1 Sheik of Kuwait's Date Gardens on the Shatt-al-Arab. (Kuwait's relations with Turkish Government [www.qdl.qa](http://www.qdl.qa))

<sup>103</sup> Arnold Wilson, The Persian Gulf An Historical Sketch from the Earliest Times to the Beginning of the Twentieth Century p.13

coasts, was nowhere to be seen. The conspicuous British absence throughout the 18<sup>th</sup> century was due to the British-Indian Government understanding that the whole southern Gulf littoral down to Qatif was in Porte's sphere of influence, and to a certain extent, to avoid the expenses of extending their navy reconnaissance to the water near Kuwait and Basra.

The events of the 1890s in Kuwait, mainly the usurpation of reign by Sheik Mubarak and the subsequent attempts to regain power by Kuwait's old guard, caught the British authorities' attention in the region. Doubts were soon raised in the British authorities' minds about the extent of the Turkish suzerainty over Kuwait.<sup>104</sup> Considerable divergence was apparent between Whitehall in London, the Indian Government, and the British authorities in the Gulf in their assessment of Kuwait's actual status in its relation with the Ottoman Empire. It ranged from being considered an independent territory, autonomously ruled under Turkey, or merely in the Porte sphere of influence. The British recognized Turkish power over Kuwait, but the Political Resident in Turkish Arabia disputed such understanding. In a letter on January 31<sup>st</sup>, 1899, to the Government of India, he insisted that Britain had never acknowledged sovereignty over Kuwait's territory. It stressed that the people's "allegiance to Turkey was stated to be merely nominal and paid no tribute."<sup>105</sup>

As early as 1878, Lord Curzon, the future Viceroy of India, reflected on the discrepancy between different British offices' attitudes. He objected to the assessment made by the Indian Government and the statement of the

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<sup>104</sup> J G Lorimer 1915, *Gazetteer of the Persian Gulf* V1. Historical part 1A & 1B p.1019

<sup>105</sup> Letter from Political resident in Turkish Arabia Major Melville on 31 January 1899 (R/15/1/472) *Records of Kuwait v1 Internal Affairs 1899-1921* p.127

## THE COVERT TREATY

British Ambassador in Istanbul that Britain recognized the land south of Basra to Ajar under Turkish authority. Curzon argued that "it is a dangerous and unsound argument; for it would imply that whenever we recognize the sovereignty of a country at two separate points on a coast implies that the recognition is continuous in its operation, and may be held to cover all that lay between."<sup>106</sup> He believed that even an implicit recognition of Turkish authority over Kuwait is asking for trouble for the British interest in the Gulf, not only from the Turks but also from Russians and Germans if Turkey "parted of her assumed rights to other parties or Powers."<sup>107</sup>

The British ambassador to the Porte summarized his Government attitude, stating that "Her Majesty's Government had never admitted Kuwait to be under the protection of the Turkish Government, but the existing of Turkish influence would probably be difficult to deny."<sup>108</sup>

Sheik Mubarak's policies were to steer the country away from the Ottoman Empire. The first sign of Sheik Mubarak's defiance of the Turkish overlord was manifested in 1897 when the Wali in Basra failed to establish a permanent Turkish Quarantine office in Kuwait as a step to assert their control.<sup>109</sup> Even the Government of India viewed the establishment of the Quarantine office in Kuwait as an intervention on the pretext of sanitary precaution. As assessed by the Political Resident L-C Meade, Turkey "were waiting for some time for a favorable opportunity to interfere in Kuwait, with the

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<sup>106</sup>The Kuwait Crisis: Basic Documents, Edited by E. Lauterpacht, C. J. Greenwood, Marc Weller, and David Bethlehem p.8

<sup>107</sup>The Kuwait Crisis: Basic Documents, Edited by E. Lauterpacht, C. J. Greenwood, Marc Weller, and David Bethlehem p.8

<sup>108</sup>J G Lorimer 1915, Gazetteer of the Persian Gulf V1. Historical part 1A & 1B p.1020

<sup>109</sup> Khazal Hussain, Kuwait Political History v1, p156 Arabic

objective of completely absorbing it into the Turkish Empire.”<sup>110</sup>

Sensing the change in the political balance, the Sheik made his shrewd judgment that Britain rather than Turkey might be his best protector in the face of revived threats to his autonomy.<sup>111</sup> His inclination away from the Turks was becoming evident and more pronounced. Though Turkey took no military action in the last decade of the 19<sup>th</sup> century to force Kuwait into submission, most likely because of the anticipated financial burden of an expedition, rumors continued to circulate of possible sea attack to seize Kuwait and to ascertain Porte’s hegemony.<sup>112</sup> The perpetual fear of Turkish annexation, the Porte’s reluctance to recognize his rule, and the Wali’s demand to establish Quarantine in Kuwait finally spurred Sheik Mubarak in September 1897 to appeal to the visiting representative of the British Political Resident for a protection treaty similar to that of other Gulf territories.<sup>113</sup> In his judgment, Turkish domination would substitute the activities of local merchants with Turks and other Europeans, and similarly to the administration in Bagdad, Turkish officials would replace local people.<sup>114</sup> The Sheik was clear that “he and his people desired to be taken under British protection in the same manner as the Sheik of Bahrain and the Sheiks of Trucial Oman to

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<sup>110</sup> Lt-Col Meade, Political Resident, Bushire to Government of India May 7th, 1899 (R/15/1/472) Records of Kuwait v1 Internal Affairs 1899-1921 p.144

<sup>111</sup> Encyclopedia of Ottoman Empire, Gabor Agoston and Bruce Masters, p.321

<sup>112</sup> The Kuwait Crisis: Basic Documents, Edited by E. Lauterpacht, C. J. Greenwood, Marc Weller, and David Bethlehem p.7

<sup>113</sup> J G Lorimer 1915, Gazetteer of the Persian Gulf V1. Historical part 1A & 1B p.1020

<sup>114</sup> Ben Slot, Kuwait the Growth of Historical Identity p. 18

prevent the annexation of Kuwait by the Turks.”<sup>115</sup> Enthusiastically, the Political Resident Lieutenant-Colonel Meade recommended the same in his telegram to the Indian Government, but his endorsement was rejected by Whitehall in London on the premises that HMG would not interfere more than necessary for preserving peace in the Gulf, cited high cost associated with expanding their naval forces to the north of the Gulf. Lord Salisbury, the British prime minister, expressed his view that extending protectorate status to Kuwait would only complicate Britain’s relationship with Russia and Germany<sup>116</sup> and would certainly antagonize Constantinople. London remained cautious, and no commitments were made to Sheik Mubarak, except that Britain’s good office to resist Ottoman’s encroachment on his independence.<sup>117</sup> Although Porte eventually recognized Sheik Mubarak’s rule in December 1897, it did not alleviate the Sheik or the Political Resident resolve; the Sheik repeated his request, this time persistently supported by Political Resident.

### **Treaty with Britain**

The prospect of a rail network from Berlin to the shores of the Gulf built and operated by the Germans and Porte’s approval of Vladimir Kapnist’s Austro-Russian rail proposal to link Tripoli on the Mediterranean to the Gulf became sources of anxiety for the British government. The swift change of the British attitude toward Kuwait, once

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<sup>115</sup> J G Lorimer 1915, *Gazetteer of the Persian Gulf* V1. Historical part 1A & 1B p.1021

<sup>116</sup> Sir W. Lee-Warner, Secretary, Political Department Indian Office to Sir W.J. Cunningham, April 15<sup>th</sup>, 1897, F.D.S.P. no. 101/115

<sup>117</sup> Sir W. Lee-Warner, Secretary, Political Department Indian Office to Sir W.J. Cunningham, April 15<sup>th</sup>, 1897, F.D.S.P. no. 101/115

Porte granted a rail concession to Kapnist on December 30<sup>th</sup>, 1898, became a matter of political expediency rather than legal status.<sup>118</sup>

The fear of Germany's incursion in the Gulf and the Russian territorial claims which may result from Kapnist's rail concession inspired the British Prime Minister and Whitehall to accept Sheik Mubarak's overture for a treaty. Nonetheless, the British Ambassador in Constantinople warned that any formal declaration of Kuwait's status as a protectorate was bound to anger Turkey. The British Secretary of State Edward Grey (1905-1916) confirmed years later that his government attitude at the turn of the century was essentially to "bind the Sheik and his successors not to alienate any portion of his territory to foreigners without the consent of the British Government."<sup>119</sup>

Whitehall instructed the Political Resident in Bushire to proceed with caution and secrecy. Meade visited Sheik Mubarak under the pretext of a game-shooting expedition in the south of Iraq, and the two sides, Sheik Mubarak Al Sabah and the Political Resident Lieutenant-Colonel Malcolm Meade representing the British Government, signed a "Bond" on January 23rd, 1899 (Appendix 2), seemingly in the home of a gun merchant in the west side of Kuwait<sup>120</sup>, only a few weeks after the Turkish granted a concession to Kapnist. The signing was witnessed by the Political Agent in Bahrain since the Sheik's brothers were reluctant to attest to it. In a break from the long-established traditional procedure, the Sheik did not consult the merchants. The British Government ratified

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<sup>118</sup> Anscombe, Frederick, *The Ottoman Empire in Recent International Politics- the case of Kuwait*, p. 551

<sup>119</sup> J G Lorimer 1915, *Gazetteer of the Persian Gulf V1*. Historical part 1A & 1B p.1022

<sup>120</sup> Interview with Mahmood Ma Taqi, Qabas Newspaper, Kuwait April 12<sup>th</sup>, 2014

## THE COVERT TREATY

the Agreement on February 16th, 1899, in complete secrecy and away from the Turkish eyes.

Evidentially the Sheikh added "of his free will and desire" to the bond, perhaps as a reflection of his independence. He accepted that he and later his heirs and successors "pledge and bind not to receive the agent or representative of any power or government at Kuwait without the previous sanction of the British Government; and not to cede, sell, lease, mortgage, or give for occupation or any purpose any portion of his territory without the previous consent of his Majesty's Government."<sup>121</sup>

The Treaty restricted the Sheik's ability to manage Kuwait's external affairs, but correspondingly the British were to abstain from interfering in the internal matters or those related to tribal squabbling. It was a simple agreement that served the British policy of perpetual dominance of the Gulf and the exclusion of all other powers from intrusion in Kuwait politics and affairs without British consent. The Sheik gave the British a veto over any admission of other foreign agents, including the granting of concessions.<sup>122</sup> In return, the British assured the Sheik, his heirs, and successors of the British Government's good offices, so long the Sheik continued to observe the obligations outlined in the Agreement.<sup>123</sup> The fact that the Agreement terms were extended to his descendants ensured that Kuwait's future leadership

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<sup>121</sup> Copy of the secret agreement between the Political Resident in Bushire and Sheik Mubarak the ruler of Kuwait with English translation, January 23<sup>rd</sup>, 1899, (R/15/1/472) Records of Kuwait v1 Internal Affairs 1899-1921 p.116

<sup>122</sup> Anscombe, Frederick, *The Ottoman Empire in Recent International Politics- the case of Kuwait*, p. 548

<sup>123</sup> J G Lorimer 1915, *Gazetteer of the Persian Gulf V1*. Historical part 1A & 1B p.1178



stayed in the lineage.<sup>124</sup> The same was later explicitly legislated in the constitution of Kuwait in 1961.

The hastily prepared and signed Treaty was typical of those signed by the other Gulf Sheiks. The Treaty was not very precise; it did not define the extent of the land under the Sheik jurisdiction, nor did it include a protectorate clause. Although the British were taking steps to avoid the establishment of a protectorate, the Indian Government, according to the Political Resident, would have included a protection clause if Sheik Mubarak had persisted. Instead, he was verbally assured by the Political Representative of diplomatic support, provided he followed their advice.

The British Foreign Secretary Lord Lansdowne noted, with some dismay, that the Agreement was concluded "without the knowledge or concurrence of the Porte." He even recommended that his government should be ready to consider any Turkish request to amend the 1899 agreement to a more definite understanding if Porte insisted on their rights. The loose Agreement set the grounds for further difficulties and intermittent confrontation between Kuwait and the Turkish Wali of Basra and the cause of diplomatic complications between the British Government and Istanbul in the pre-war period. The signing of the Agreement was the first formal international recognition of Kuwait's autonomy<sup>125</sup> and brought Kuwait a step closer to break from the Turkish sphere of influence and enhance its ability to resist Bagdad's interference in its internal affairs.

The urgency and the convenience of the secret Treaty with the Sheik of Kuwait to block the advancement of the German/Turkish rail project cannot be overstated. The

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<sup>124</sup> Anscombe, Frederick, *The Ottoman Empire in Recent International Politics- the case of Kuwait*, p. 557

<sup>125</sup> Anscombe, Frederick, *The Ottoman Empire in Recent International Politics- the case of Kuwait*, p. 548

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British political establishments were determined to keep the treaty absolutely secret.<sup>126</sup> Conflict between London and Istanbul was inevitable had the Treaty become public. Its terms, as far as Porte was concerned, breached the 1878 Treaty of Berlin and perhaps would have agitated them into a forced takeover of Kuwait. Despite the efforts by both signatories to keep their agreement secret, the news quickly reached Istanbul, seemingly through the Fao Telegram office.<sup>127</sup>

The Turks were not ready to allow the British to displace them from their sphere of influence. They reappointed Hamdi Pasha in Basra in a sign that Istanbul intended to retain its influence over Kuwait, including military occupation if needed. Instead, Porte approached the British Ambassador in Istanbul to negotiate a settlement that would satisfy the British interest without changing the status quo as far as Kuwait was concerned. Although the British Ambassador was satisfied with the approach, the Indian office was not; their view was that any negotiations negated the assumption that Kuwait was independent of Turkey.<sup>128</sup> The British Council in Basra reported troops' concertation in the Fall of 1899 to forcefully occupy Kuwait<sup>129</sup> but more likely to oblige the British to the negotiation table. The British dispatched a naval squadron to show their resolve to hold over Kuwait and prevent Kuwait's occupation by Turkish forces.<sup>130</sup>

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<sup>126</sup> Lt-Col M J Meade Political Resident Bushire to Sheik Mubarak on January 23<sup>rd</sup> 1899 (R/15/1/472) Records of Kuwait v1 Internal Affairs 1899-1921 p.119

<sup>127</sup> Gokhan Cetinsaya, Ottoman Administration of Iraq, 1890-1908, p.139

<sup>128</sup> Kuwait: Anglo-Ottoman Relations 1890-1914 Shdhganga Thesis Rep 1994, p. 177

<sup>129</sup> Telegram Viceroy to Secretary of State for India, September 2<sup>nd</sup>, 1899 F.D.S.P. no. 140, November 1899

<sup>130</sup> Telegram HM's Ambassador, Constantinople, to Viceroy, September 11<sup>th</sup>, 1899, F.D.S.P no. 146, November 1899

The Treaty was mutually beneficial. The Sheik was secured against possible Basra's attack, while the British extended their command to the north of the Gulf, close to where the Ottoman Empire ruled. The Bond, as it became known, was initially perceived to push back against Astro-Russian rail design, but it soon became the instrument the British needed to stop Germany's influence to reach the Gulf and to extract maximum advantages in the drawn-out negotiation for the control of the Berlin-Bagdad Rail network. Any additional responsibilities imposed on the British resources by the 1899 Treaty were compensated by the tremendous leverage they gained in negotiating with the rail concession owners the terms of the Rail project.

### **Kuwait: The Terminus of Berlin-Bagdad railway**

Except for the telegraphic link and the colonial perception of the Gulf as the protective gate of India, the Gulf lost its luster once the Suez Canal was inaugurated in 1869. The opening of the Suez Canal brought intercontinental trade back to the Middle East. Ownership and control of the new Channel by the Egyptians, under the regional authority of the Othman Empire and the French Governments, presented a new challenge to British domination. Once again, the old fear of the French reaching India in the shorter sea route was looming. A selected committee of the House of Commons was assigned in 1871 to decide on alternatives to the French-controlled Suez Canal. They recommended a rail system, with the Turkish Government's blessing, to connect the Mediterranean port of Alexandria to Kuwait through Mesopotamia. The proposal did not go anywhere. Instead, with foresight and sagacity, the British Government purchased a controlling share of the Suez Canal in 1875 from the bankrupt Egyptian Government for a mere 4

## THE COVERT TREATY

million Pounds.<sup>131</sup> Britain managed to preserve its dominance of the sea-bound route to Indian and the Far East through the Red Sea, Suez, and Aden.

With the Suez Canal under their control, the British were soon due for a new challenge to their predominance of the Gulf. A new rail scheme to connect Europe to the Far East was being contemplated in more than one European Capital. The most serious was the proposed railway that would connect Berlin to the Gulf, known as Berlin-Bagdad Rail, advocated by Germany, and embraced by the Turkish Governments.

The proposed rail network would follow the ancient highway connecting inland Europe to the Gulf traverse both Europe and the Middle East through the rigid mountains of Anatolia, deserts of Syria, and the river valley of Mesopotamia, through the charming Constantinople and the old and worn-out Bagdad. It was in the hope of reviving the ancient Silk Road connecting the West to the Orient perceived with romance in the public's mind, though this time with the nineteenth-century innovations. Steam and electrically powered trains and ships replaced sails and caravans of camels through Persia and Mesopotamia to Aleppo and Constantinople. It was to supplement, rather than replace, the ocean routes that the Portuguese discovered in the sixteen century and the newly opened Suez Canal.

Foreseen as the shortest possible route, the Germans estimated that it could reduce the trip between inland Europe to India and the Far East by four days from the journey through the Suez Canal. Its strategic importance for the Germans was compelling; once completed, the new rail would outflank the British-controlled Suez and avoid a probable naval blockade by the mighty navy of Great

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<sup>131</sup> Edward Meade Earle, *Turkey, The great powers and The Bagdad Railway A Study in Imperialism*, The Macmillan Company 1924 p.178

Britain in case of war or conflict. It was equally crucial for Turkey; it would satisfy Porte's overwhelming desire to reestablish its power over its degenerated Empire with ease of military movement to the rebellious population areas, defend its territory and extend the reach of the tax collectors in both ends of the Empire.<sup>132</sup> The investors and bankers had their self-interest; they were confident that the rail would generate enough income for Turkey to serve its debts and the payment to the bondholders.<sup>133</sup>

The new rail would transport German and European goods to the Middle East markets, provide its expanding manufacturing with the ever-increasing need for raw materials and avail more food for its growing urbanized population. It would reinvigorate the stagnant Turkish economy, resurrect the depressed economy of the Arabian territories, and prosper the impoverished life of the people of Turkey, Syria, Mesopotamia, and Kuwait.

For a while, it was picture perfect. In Europe, the rivalry between the powers for the control of Berlin-Bagdad Rail was heating up; the excitement around the many benefits that the rail system filled their newspapers. The new venture epitomized the developing rivalry between the British, the Turks, and later the Germans for control of the region adjacent to the Gulf and the British jealousy of protecting its turfs at any cost. The British Government leveraged the Treaty with Kuwait during their negotiations with the Germans and the Turks in the pre-war period to the maximum extent possible. Time and again, the Germans and the concession holders were

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<sup>132</sup> Edward Meade Earle, Turkey, The great powers and The Bagdad Railway A Study in Imperialism, The Macmillan Company 1924 p.18

<sup>133</sup>Edward Meade Earle, Turkey, The great powers and The Bagdad Railway A Study in Imperialism, The Macmillan Company 1924 p.19

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frustrated and were obliged to concede to the British demands for more favorable terms.

The prospect of the rail terminus accentuated Kuwait's position in the complicated negotiation between the European powers jockeying for a share in the enterprise. With Berlin and Continental Europe on one end and Basra and Kuwait on the other, the proposed railway brought Kuwait in the early days of the twentieth century from obscurity to the international scene, albeit for a brief period. With Kuwait virtually locked into the British domain, it became one element of that conflict<sup>134</sup> and eventually the cornerstone of the British negotiation for their share in the venture.

The limitations placed in the 1899 Treaty, disallowing the Sheik from direct dealing with any foreign government, obliged the Germans to negotiate with the British for the rail terminus in Kuwait. It soon became apparent to the Germans that the venture could only precede with British participation and with terms dictated by London. The British Foreign Secretary Lord Lansdowne made it clear in his bedrock statement that "GB will not stand in the way of the arrangements under which the terminus might be extended to Kuwait or elsewhere on the Gulf provided British Capital receive at least an equal share in respect of construction, material, and management with that of any other power."<sup>135</sup>

The Germans had their point of view. They recognized their need for the British and French capital and political backing to manage the high-level risk; still, they aspired for the rail to be thoroughly German. Germany's ambassador to Constantinople, Baron Marchelle von

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<sup>134</sup> Mustafa Sitki Bilgin, *The Construction of the Bagdad Railway and its Impact* p.117

<sup>135</sup> Memorandum by Marquess of Lansdowne, Foreign Office, March 21<sup>st</sup> 1902 (L/P&S/19), Records of Kuwait v1 Internal Affairs 1899-1921 p.224-225

Bieberstein, declared that the rail “to be built with only German material and transfer goods and people to Asia via the most direct path from heart of Europe.”<sup>136</sup>

The Deutsche Bank realized the financial risk of the enterprise and was ready to broaden the involvement of the other European powers, including multiple attempts to secure British participation to co-finance the project. Deutsche Bank and the French-owned Imperial Ottoman Bank, operating from Istanbul, formed the Anatolian Railway Company (ARC) in March 1889 to overlook the project once Sultan Abdul Humid II accepted their bid.<sup>137</sup> A railway connecting Berlin to Constantinople was inaugurated in 1888, and in 1892 ARC extended the line to Konia.

The Ottoman Government signed a convention (Irade) in November 1899 that gave ARC, in principle, the rights to extend the existing railway from Konia to Bagdad and Basra. Although it was decided that the final railway terminal was somewhere on the Gulf, an ARC Survey Commission concluded in early 1900 that Kuwait as terminus was essential;<sup>138</sup> otherwise, the line will not pay.

ARC was prepared to arrange for the terminus in Kuwait with the Turkish Government’s assistance without referring to Sheik of Kuwait.<sup>139</sup> With a decree from the Sultan in hand, the Germans tried to convince Sheik Mubarak during their 1900 visit with a generous offer to approve a proposal for the final terminal in Khadma, north of Kuwait Bay. The Sheik, under an obligation of the terms of the 1899 Treaty with the British, declined.

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<sup>136</sup> Sean McMeekin, *The Berlin-Bagdad Express, The Ottoman Empire and Germany’s Bid for World Power, 1898-1918* p.32

<sup>137</sup> Jonathan McMurry, *Distant Ties, Germany, The Ottoman Empire, and the Construction of the Bagdad Railway* by p.22

<sup>138</sup> Political Resident to Secretary, Foreign Department, GOI, January 15<sup>th</sup>, 1900, F.D.S.P. no, 175/281, October 1901

<sup>139</sup> Political Resident to Secretary, Foreign Department, GOI, January 15<sup>th</sup>, 1900, F.D.S.P. no, 175/281, October 1901

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The British Ambassador to Porte, anxious of possible German incursion, informed the Turkish Government that Britain could not view any privileges in the Gulf with indifference. He stated, "that the Sheik was not at liberty to cede or otherwise alienate to the Railway Company either the harbor of Khadma or any other part of his territory without the consent of HM Government."<sup>140</sup>

Realizing the need for a port on Kuwait's coast and the Sheik's refusal to cede any part of his territory, the German instigated the Turkish Army to occupy the Island of Bubiyan to secure a foothold on the ground for a terminus without the need to refer to Sheik Mubarak or the British. Notwithstanding British objection or possible repercussions,<sup>141</sup> a small Turkish force occupied the island in 1902, a year before the Agreement between the Turkish Government and ARC was signed. Sheik Mubarak's objected on the ground that it was a threat to his sovereignty, while the British Indian Government viewed the occupation as a violation of the status quo and contrary to its declared policy of disallowing other powers from establishing bases or ports on the Gulf's shore. Germany's choice also contraindicated the British declaration that any terminus beyond Basra should have British consent.<sup>142</sup>

The Turkish government finally granted the German-led syndicate the concession to extend the rail tracks from Anatolia to the Gulf in March 1903.<sup>143</sup> To sweeten the deal, the Sultan augmented the rail concession with the rights

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<sup>140</sup> O'Connor to Foreign Office April 10<sup>th</sup>, 1900, Foreign Office 78/5114

<sup>141</sup> Mustafa Sitki Bilgin, *The Construction of the Bagdad Railway and its Impact* p.120

<sup>142</sup> Sir Edward Gary, Foreign Office to Sir F Bertie, Paris, May 21<sup>st</sup>, 1913 (R/15/5/63) Records of Kuwait v1 Internal Affairs 1899-1921 p.480-481

<sup>143</sup> Jonathan McMurry, *Distant Ties, Germany, The Ottoman Empire, and the Construction of the Bagdad Railway* by p.50



to explore and excavate for all minerals, including oil, within twenty kilometers on either side of the line to the new syndicate.<sup>144</sup>

The 2200 kilometers rail system planned for completion within eight years period faced multiple complications. Difficulties of constructing in the harsh mountain terrain of Turkey and the vast desert of Syria and Iraq, the obstacle of funding arrangements, and the company's financial difficulties delayed the start of the actual work. The project was further complicated by the absence of an agreed vision between the ARC and the Sultan on the preferred route. The German preferred the path with the lowest cost, while Sultan Abdel Hamid's "only concern at that point was to preserve his territorial integrity by extending the railway to the Gulf as soon as possible."<sup>145</sup> The threat posed by the new Treaty between Britain and Kuwait and Kuwait's political developments compelled Sultan Abdel Humid to accept the lower-cost route proposed by the German Engineers.

Despite the British hesitation to join the consortium, British and German specialists were busy choosing a location within Kuwait's territory if the British Government was ready to join. The British planners choose Bander Shewikh on the Bay of Kuwait, not far from the town. Meanwhile, the Germans opted for the Kuwaiti Island of Bubiyan, in the northeast of the country, occupied by the Turkish Army, as the most suitable option. A report prepared for the British Foreign Office in 1905 described Shewikh's shore as well adapted for the terminus, and no engineering difficulties were foreseen in connecting it to the rail system. It is near the Gulf, and like Basra, it is close to an established trade center. In

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<sup>144</sup> Sean McMeekin, *The Berlin-Bagdad Express, The Ottoman Empire and Germany's Bid for World Power, 1898-1918* p.43

<sup>145</sup> Jonathan McMurry, *Distant Ties, Germany, The Ottoman Empire, and the Construction of the Bagdad Railway* by p.48

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anticipation, the British signed a long-term “lease in perpetuity” agreement in 1907 for an annual rent of sixty thousand Rupees (4000 pounds) with Sheik Mubarak that secure them Bander Al Shuwaikh well in the future.

The construction of the complex rail system was infected with problems almost at every turn. The Young Turks revolution in 1908, Turkey’s chronic financial situation, and its dried-up capital reserve added to the mounting issues facing the Rail Company. Turkey’s finance continued to be stifled by the Ottoman Public Debt Administration composed of France, the UK, Italy, Germany, and Austria-Hungary, while Turkey’s jurisdiction was suppressed under western capitulation.

The Germans were still hoping to induce Britain’s political acceptance and financial contribution to complete the construction of the rail system. By that time, the British interest was reduced to the last portion of the rail system between Bagdad and Basra or Kuwait. The Germans proposed in 1909 an international company with 25% capital by each of the British, French, German, and Turkish to construct the last portion connecting Bagdad to Basra. Although the British Banks welcomed the German idea, London rejected the proposal<sup>146</sup> since the British Government’s interest and concern were further narrowed to the control of terminus near the Gulf.<sup>147</sup>

The long dragged-out negotiation between the Germans and the British was finally concluded in mid-June 1914, less than two months from the start of the Great War. The British ended their objection to the rail enterprise but insisted that the line can only go as far as Basra rather than Kuwait, effectively ending the German dream of a

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<sup>146</sup> Jonathan McMurry, *Distant Ties, Germany, The Ottoman Empire, and the Construction of the Bagdad Railway* by p.80

<sup>147</sup> Jonathan McMurry, *Distant Ties, Germany, The Ottoman Empire, and the Construction of the Bagdad Railway* by p.80

foothold on the Gulf.<sup>148</sup> The German Foreign Office's earlier prophecy of running into a dead-end street if the rail venture from Berlin to the Gulf did not reach the waters of the Gulf came true.<sup>149</sup>

Half of the 2200 kilometers distance between Konia and Basra was laid by the war's breakout in August 1914.<sup>150</sup> Despite the sea blockade, funding difficulties, and the need for workers, construction of different sections continued with many interruptions throughout World War One. Though the completed portion was used for Germany's war efforts and more extensively by Turkey, it was always under attack and proved ineffective.

The railway system was finally completed twenty years later, in 1940, almost half-century from the time it was first conceived. It never aspired to what was intended to be when it finally made the nonstop journey between Bagdad and Istanbul, nor it realized the intercontinental trade it was so resolutely contemplated in the early days of the twentieth century.<sup>151</sup> In the final count, the rail network was settled to serve each country's, Turkey, Syria, and Iraq, local transport needs. In Iraq, the first train traveled from Bagdad to Basra in 1920 and was by 1940 connecting it to all the large cities of Iraq.

In retrospect, even if the rail terminus was in Kuwait rather than Basra, it would not have made it any more viable. Its failure to achieve its glorious objective to integrate a land-sea link between Europe and India was prophesied by Lord Curzon as early as 1911. In his Statement of Policy during a Parliamentary session, he

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<sup>148</sup> Jonathan McMurry, *Distant Ties, Germany, The Ottoman Empire, and the Construction of the Bagdad Railway* by p. 101

<sup>149</sup> Jonathan McMurry, *Distant Ties, Germany, The Ottoman Empire, and the Construction of the Bagdad Railway* by p.101

<sup>150</sup> Jonathan McMurry, *Distant Ties, Germany, The Ottoman Empire, and the Construction of the Bagdad Railway* by p.115

<sup>151</sup> Jonathan McMurry, *Distant Ties, Germany, The Ottoman Empire, and the Construction of the Bagdad Railway* by p.137

## THE COVERT TREATY

announced that “even if a railway be there constructed, the trade will still go in boats.”<sup>152</sup>

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<sup>152</sup>Brig-Gen F. J. Moberly, History of the Great War Based on Official Documents, The Campaign in Mesopotamia 1914-1918, p41

## **KUWAIT IN THE TIME OF BRITISH EMPIRE**

### **3 Consolidation of Power**

The Treaty of 1899 with the British-Indian Government alleviated Sheik Mubarak's anxiety; the tacit support and assurance from the Political Resident balanced, to a certain extent, the Ottoman power. It relieved him from the Turkish Wali's demands and secured him from his northern neighbor's possible threat. He nonetheless had to steer his way between the rival dominant powers. Between 1899 and 1913, he retained both the title Qaim-Maqam and his obligations to Britain.<sup>153</sup> Yet, Sheik Mubarak's longing for independence from the Turkish grasp proved intricate and elusive, while the threat of Turkish attacks never dissipated. The clandestine Treaty did not, as far as Porte was concerned, change the perceived Turkish supremacy over Kuwait. Turks were not prepared to accept the possibility that Kuwait was an independent legal entity since they never considered the 1899 Treaty legally binding. Viceroy of India even noted soon after signing the Treaty that the Ottoman official could ignore the agreement if they see fit.

Turkish Government in Iraq became aware of the Treaty as soon as it was signed, possibly through the Telegram

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<sup>153</sup> Saeed Hashim, *The Influence of Iraq on the Nationalist Movements of Kuwait and Bahrain 1920-1961*

office in Fao. The Wali of Basra contemplated an expedition against Kuwait in February 1899, just weeks after signing the Treaty. According to the Political Resident, Britain had "given rise to a state of things there which might afford an excuse to the Turks for active interference." He warned that the British Authorities should be prepared to "effectively forbid an attack and to commence a diplomatic action with the Turkish government to come to an understanding regarding the status of the rulers of Kuwait."<sup>154</sup> The Turkish Prime Minister Tawfik Pasha protested the new Treaty once it became public on the grounds that the Treaty violates the 1878 Berlin Agreement. The situation was somewhat eased through diplomatic discussion between the Turkish Government and the British Ambassador to the Porte Sir Nicholas O'Connor-Don. The Turks were understandably defiant; Sultan Abdel Humid informed the British Ambassador in Constantinople of his sympathy with the British protective attitude of supremacy in the Gulf region, but he will not cede Basra, Kuwait, or Port of Qaitif.<sup>155</sup>

Both powers were keen in the early 20th century to avoid any armed conflict; Turkey's hands were full in the Balkans, and in the case of Britain, the South African Boer War kept them occupied. Even after two years from the signing of the Treaty, Kuwait's status was still somewhat ambiguous. Porte did not change its perception; it continued to consider Kuwait as part of their possession and deemed the Sheik as a Qaim-Maqam of Cazi of Kuwait,<sup>156</sup> but they realized that Kuwait was under "full

<sup>154</sup> Handwritten letter from Lt-Col Meade, Political Resident, Bushire to Government of India, May 7<sup>th</sup>, 1899 (R/15/1/472), Records of Kuwait 1899-1961 v1, Internal Affairs 1899-1921, page 140-141

<sup>155</sup> Gokhan Cetinsaya *The Ottoman Administration of Iraq 1890-1908*. p. 140 Routledge

<sup>156</sup> Kuwait Wa Adarat Al Istaqlal, Kuwait, Management of Independence in the Othman Archives (Arabic), Translation by

## CONSOLIDATION OF POWER

British authority control,"<sup>157</sup> and nothing they can do to extend Porte's influence in Kuwait except military action or the occupation of the Island of Bubiyan in the northeast of Kuwait.<sup>158</sup> Basra's Wali suggested that Porte should adopt more decisive measures to forestall the British from establishing a protectorate in Kuwait and disallow the British to broaden their influence in Kuwait's deserts to the extent that it could create a buffer between Basra and Najd there.<sup>159</sup>

The first serious encounter happened in September 1899 when Turkey attempted to establish a customs house, but the Sheik declined to receive the designated Harbormaster. The British Government, through their Ambassador in Constantinople, hinted of their friendly relation with the ruler of Kuwait and his country's support for the Government in Kuwait if threatened, but short of revealing the new Treaty. He warned that his government would not jeopardize or allow weakening Kuwait's independence.<sup>160</sup> Nonetheless, in response to Ports' discomfort, the British Foreign Office assured the Turkish Government that "it did not intend to occupy Kuwait or establish Kuwait a British Protectorate there."<sup>161</sup>

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Kamal Ogulo, p. 189, published by Thatalsalasil, Kuwait

<sup>157</sup> Kuwait Wa Adarat Al Istaqlal, Kuwait, Management of Independence in the Othman Archives (Arabic), Translation by Kamal Ogulo, p. 193, published by Thatalsalasil, Kuwait

<sup>158</sup> Kuwait Wa Adarat Al Istaqlal, Kuwait, Management of Independence in the Othman Archives (Arabic), Translation by Kamal Ogulo, p. 194, published by Thatalsalasil, Kuwait

<sup>159</sup> Kuwait Wa Adarat Al Istaqlal, Kuwait, Management of Independence in the Othman Archives (Arabic), Translation by Kamal Ogulo, p. 191-193, published by Thatalsalasil, Kuwait

<sup>160</sup> Lorimer, Gazetteer of the Persian Gulf, V1, Historical, part 1A &1B, 1915 p.1025

<sup>161</sup> Letter from Foreign Secretary, The Marquess of Lansdowne to Authopoulo Pasha, September 11<sup>th</sup>, 1901, Records of Kuwait v1, p. 189



## KUWAIT IN THE TIME OF BRITISH EMPIRE

With the Berlin-Bagdad Rail project looming, both Empires settled for the comfort of the Status Quo, in which they both agreed not to occupy Kuwait by troops<sup>162</sup>. The military restrictions imposed by the new Status Quo, though vague, limited Turkish influence and were eased into admitting the recent British clout in Kuwait. The British, meanwhile, promised to restrain the Sheik from further tribal skirmishes.

Turkey's opportunity to reassert its supremacy came in 1901 once the Sheik of Kuwait lost a tribal war in Serif in March that year. Sensing Sheik Mubarak's weakness, the Wali of Basra dispatched in early December 1901 a delegate headed by Naqib (Marshall) of Basra and the sloop of war, Zuhaf, to Kuwait to intimidate the Sheik back into the Ottoman Empire's fold. The British, pre-warned by the Sheik of the new development and the approaching sloop of war, dispatched a naval ship to Kuwaiti shores to restrain the Turkish delegate and counter the Turkish war vessel. The Sheik was presented with an ultimatum during his meeting with the delegate from Basra. He could rule his territory overshadowed by few Turkish soldiers under his order, provided he abandon his new ties with the British Government. Or, he could retire in a prestigious life in the beautiful Constantinople in the government court or reside in a part of the Empire not far from the Turkish government's ears and eyes with a generous pension and life of luxury.<sup>163</sup> Failing to comply, he would be forced to leave the country.<sup>164</sup>

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<sup>162</sup> Anscombe Frederick p. 122 cited in Ethan Tyler, *A British Lake, Kuwait and the 1913 Anglo-Ottoman Convention*, The University of North Carolina, Department of History, p. 24).

<sup>163</sup> Bash Katib-el-Mabain to Wali of Bussrah (translation from Turkish) November 23<sup>rd</sup>, 1901, (L/P&Ss/19)

<sup>164</sup> Letter from Sheik Mubarak to Lt-Col Kemball, Political Resident, Bushire, December 3<sup>rd</sup>, 1901 (L/P&Ss/19)

## CONSOLIDATION OF POWER

The presence of the British naval officer in the meeting and the British ships nearby emboldened the Sheik. The British navy officer argued that the Wali of Basra's action amounted to a breach of understanding between London and Constantinople that called for preserving Kuwait's status quo.<sup>165</sup> Simultaneously, the British Ambassador in Constantinople protested to the Turkish Government. The Turkish delegate was forced to back off.

The intense rivalry among the European powers for the Berlin-Bagdad Rail venture, most notably between the British, protective of its exclusivity in the Gulf and the Germans with a concession in hand, soon spelled into southern Iraq and Kuwait. The German company's desire to acquire Khadma north of Kuwait Bay for the terminus of the railway directly from Sultan Abdel Humid without regard to the Sheik of Kuwait was, in the words of the British Government representative, totally unacceptable. German's views of the Sheik as "merely a subject of the Sultan"<sup>166</sup> stirred the British Ambassador in Constantinople, Sir O'Connor, to reiterate the British Government's position that "if Kuwait were threatened, Her Majesty Government would use force to prevent an attack."<sup>167</sup>

The Turkish Ambassador in London objected to the British Treaty with "one of its subjects" once the news of the Treaty was announced. Porte considered the Treaty a challenge to his country's sovereignty. The British adopted a defensive posture in justifying its policy. The British Ambassador in Constantinople informed Tawfik Pasha that

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<sup>165</sup> Letter from Lt-Col Kemball, Political Resident, Bushire, to Sheik Mubarak December 5<sup>th</sup>, 1901 (L/P&S/19)

<sup>166</sup> Memorandum outlining Kuwait's History from 1871 to 1901 by Mr. Harcourt, Foreign Office, October 29<sup>th</sup>, 1901 (L/P&S/18/B133)

<sup>167</sup> Memorandum outlining Kuwait's History from 1871 to 1901 by Mr. Harcourt, Foreign Office, October 29<sup>th</sup>, 1901 (L/P&S/18/B133)

Britain did not wish to interfere with the territory of the Ottoman Empire or with Porte authority, but considering the great interest of other Europeans in the wake of the Berlin-Bagdad Rail proposal, Great Britain cannot be indifferent to changes that would alter the existing conditions or give another power special rights over territory belonging to the Sheik with whom Her Majesty's Government had certain Agreement.<sup>168</sup>

Persistence attempts by the German engineer to conclude an agreement with Sheik of Kuwait or with the Porte for a terminus in Kuwait obliged the British to be more explicit. The British Ambassador informed the Turkish Minister for Foreign Affairs and the German Ambassador in April 1900 that although his government was desirous of maintaining the status quo, he could not accept other powers' privileges over Kuwait. He clearly explained to the German Ambassador that the Sheik was not at liberty to cede to the Berlin-Bagdad Railway Company any part of his territory without the British Government's consent:<sup>169</sup> the Sheik was no longer a free agent.<sup>170</sup>

Kuwait's political situation and its implication on London's relation with the Porte became a bone of contention within the British political establishments in London and Bombay. Foreign Secretary Lord Lansdowne was more concerned with the broader policy of Great Britain in the Gulf and its ramification on the international scene. He reprehended the Indian Government for signing a vague treaty. Lansdowne asserted that although Great

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<sup>168</sup> Memorandum outlining Kuwait's History from 1871 to 1901 by Mr. Harcourt, Foreign Office, October 29<sup>th</sup>, 1901 (L/P&S/18/B133)

<sup>169</sup> Lorimer, *Gazetteer of the Persian Gulf*, V1, Historical, part 1A & 1B, 1915 p.1027

<sup>170</sup> Memorandum outlining Kuwait's History from 1871 to 1901 by Mr. Harcourt, Foreign Office, October 29<sup>th</sup>, 1901 (L/P&S/18/B133)

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Britain should be the dominating power in the Gulf, it must reach an amicable understanding with the Porte rather than being drawn into the local intrigue<sup>171</sup>. He stressed that it was more important for the British Government to have a say on the railway's terminus and secure the participation of the British capital in the Bagdad Berlin railway venture than the question of Kuwait and its borders. He felt that "the situation at Kuwait is becoming more and more embarrassing"<sup>172</sup> and have drawn the Foreign Office into a series of irritating discussions<sup>173</sup> with Turkey and other foreign powers on the notion of maintaining the status quo regarding Kuwait. Although, as he put it, "no one knows what the status quo is." The British Ambassador in Constantinople shared the Foreign Office bias; he was clear that neither he nor his Government "wish to encourage the Sheik to throw off allegiance to Sultan,"<sup>174</sup> but stopped short of referring to Kuwait as part of the Turkish Empire<sup>175</sup>. The Indian government considered the policy statement of Lord Lansdowne as a departure from the earlier Whitehall stand, which hitherto considered Kuwait practically independent<sup>176</sup>. Perhaps the ambiguity of the relationship suited the British; its ill-defined nature was convenient enough to conduct their international relationship with Bonn and Istanbul while keeping Germany out of the Gulf.

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<sup>171</sup> Letter from Marquess of Lansdowne to Sir N O'Connor, British Ambassador, Constantinople, March 24<sup>th</sup>, 1902 (L/P&S/19)

<sup>172</sup> Memorandum by Marquess of Lansdowne Foreign Office, March 21<sup>st</sup>, 1902 (L/P&S/19)

<sup>173</sup> Letter from Marquess of Lansdowne to Sir N O'Connor, British Ambassador, Constantinople, March 24<sup>th</sup>, 1902 (L/P&S/19)

<sup>174</sup> Telegram from Lord Hamilton to Government of India, March 29<sup>th</sup>, 1902 (L/P&S/19)

<sup>175</sup> Assistance Under Secretary of State for Foreign Affairs to India Office, April 3<sup>rd</sup>, 1902 (L/P&S/19)

<sup>176</sup> Government of India to Lord Hamilton, March 29<sup>th</sup>, 1902 (L/P&S/19)

The vital need of the Anatolia Railway Company for a terminus closer to the Gulf emboldened Turkey in Southern Iraq to secure in early 1902, despite the status quo, a foothold in the border area of Umkasr and Safwan and established a small army garrison on the Island of Bubiyan,<sup>177</sup> northeast of Kuwait. Turkish troops eventually advanced further south to nearby Sabiyah on the Bay of Kuwait, not far from Khadma earmarked as a possible terminus for the Bagdad-Berlin line. Porte's justification for the presence of a military post on the Island of Bubiyan was "for protection of fishermen on the coast, and that Sheik Mubarak had never established any claim to the island, which was a barren uninhabitable waste."<sup>178</sup>

The extension of Turkish authority to the northern Gulf and their new policy of gradual encroachment caused considerable anxiety inside Kuwait. Turkey justified its move on the premise that it was an internal matter since Kuwait was under its sovereignty. Sheik Mubarak persistently requested the British to advance his cause politically with the Porte and demand the Turkish Army to evict his territory and the island of Bubiyan and peacefully or with military force if needed to be. The Foreign Office expressed their view that Britain would resist any Turkish advance further south on Sabiyah.<sup>179</sup> The Political Resident sent the small naval ship, Sphinx, to the area and advised the Sheik to send troops to forestall the Turkish Army's threat and compel them to retreat.<sup>180</sup>

Britain's reluctance to use force was understandable; international development and accommodation of Istanbul

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<sup>177</sup> Lorimer, *Gazetteer of the Persian Gulf*, V1, Historical, part 1A & 1B, 1915 p.1033

<sup>178</sup> Mr. Townley, British Embassy, Constantinople to Marquess of Lansdowne November 3rd, 1904

<sup>179</sup> Assistance Under Secretary of State for Foreign Affairs to India Office, April 3<sup>rd</sup>, 1902 (L/P&S/19)

<sup>180</sup> Telegram from HMS Pomone, at Kuwait to Bombay, March 12<sup>th</sup>, 1902 (R/15/1/475)

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before the breakout of World War One was paramount as far as London's policymakers were concerned. Nonetheless, Viceroy of India, Lord Curzon, was well aware of the delicate situation that was developing around Kuwait and the possible erosion of the British domination in the Gulf as the European powers were slowly encroaching. He visited the territories of the Gulf, including Kuwait, at the end of 1903 to expand the role of the British-Indian Empire in the Gulf and shore up their rulers against possible threats from other European powers.

He was received with pageantry and pomp that included a 31-gun salute once his Royal ship arrived in Kuwait on November 28<sup>th</sup>, 1903. Curzon presented the Sheik with the Star of India and a stone-studded sword as a token of a thriving, friendly relationship between the two. He promised Britain's protection provided the Sheik distance his country from the unraveling conflict in the Arabian Peninsula. A year later, Lord Curzon saw the moment was opportune for dispatch of an officer to Kuwait, knowing that it defied the status quo<sup>181</sup>. Captain Stuart Knox was appointed as the first Political Agent in Kuwait in August 1904, subordinated to the Political Resident, and accompanied by eight cavalries. He was instructed to cultivate friendly relations with the Sheik, curb the thriving gun trade, and keep "vigilant watch over the proceedings of Turks on Kuwait territories' boundaries."<sup>182</sup> Interestingly, despite the announced British policy of prohibiting gun trade in the Gulf, the British were not so keen to control its flow. The instruction to the Political Agent was that he "should investigate the alleged importation of arms at Kuwait, but he should neither

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<sup>181</sup> Telegram from Viceroy Simla, to Secretary of State for India, London May 29<sup>th</sup>, 1904 (R/15/5/59)

<sup>182</sup> Under Secretary of State for India to Major P Z Cox Political Resident, Bushire, September 7<sup>th</sup>, 1904 (R/15/5/59)

authorize nor forbid the Sheik to continue the existing trade in arms.”<sup>183</sup>

Porte complained that while the British were regularly accusing Turkey of breaking the Status Quo Agreement, the British assigned a representative from India to reside in Kuwait in a blatant infringement of the Status Quo.<sup>184</sup> Even the Foreign Office in London objected to the decision of the Indian Office; they considered the appointment of a permanent resident in Kuwait as a departure from the agreement. London was satisfied with the ordinary channels rather than direct involvement; they noted that “closer touch with Kuwait could be gradually established by repeated intervals temporary visits until his resident becomes permanent.”<sup>185</sup> Nonetheless, despite lip service to appease Turkish authorities, the presence of a Political Agent in Kuwait was a fact of life for the next fifty years.

Turkey strongly objected to the appointment of the Political Agent residing in Kuwait; they viewed India’s action as an intrusion on its domain, demanding that they also appoint one of their own in Kuwait, which both the British and the Sheik ignored. Turkey considered the appointment of a Political Agent as nothing short of infringement of the status quo and should therefore be instructed to leave.<sup>186</sup> The British Government sympathized with the reasoning presented by the Turks of maintaining the status quo, but London agreed that “no

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<sup>183</sup> Lorimer, *Gazetteer of the Persian Gulf*, V1, Hist. part 1A &1B, 1915 p.1039

<sup>184</sup> Kuwait Wa Adarat Al Istaqlal, Kuwait, Management of Independence in the Othman Archives (Arabic), Translation by Kamal Ogulo, p. 191-193, published by Thatalsalasil, Kuwait

<sup>185</sup> Marquess of Lansdowne, Secretary of State for Foreign Affairs to Mr. Townley, British Embassy, Constantinople, November 4<sup>th</sup>,1904, and Mr. F Viliers, Political Secretary, Foreign Office, November 25<sup>th</sup>,1904 (R/15/5/59)

<sup>186</sup>Mr. Townley, British Embassy, Constantinople to Marquess of Lansdowne November 3rd, 1904

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immediate steps should be taken to withdraw Captain Knox.”<sup>187</sup>

The British enhance their influence when, in 1904, the Sheik applied for a loan of Rs. 1,00,000 from the Indian Government to manage his swelling expenses and supplement the low income of his territory. In reporting on the Sheik request, the Political Agent wrote to his superior in Bushire, stating that “it gives us a greater hold over the sheik and perhaps attach him firmly to us.” The Agent assessed that “Mubarak himself is probably sincere in his feeling of loyalty to the British Government, but his successor may not strictly share his views.” The loan was readily granted, without interest, on the “condition that he should not borrow from any other lender without the contest of the British Government.”<sup>188</sup>

Porte realized that Kuwait was lost to them after the visit of the Viceroy of India, Lord Curzon, in November 1903 to Kuwait and the other territories of the Gulf<sup>189</sup>. The Viceroy symbolic boat tour of Khor Abdulla, the channel separating Kuwait and Iraq in the Fao Peninsula, consolidated the British presence but aggravated the Turkish Government and felt threatened by the British encroachment closer to their territory in Iraq. Turkey was not ready to fold. Despite Sheik Mubarak’s generous financial contribution toward the Hejaz railway, his donation to build a Turkish barracks in Basra, and his message of loyalty sent to the Calipha that professed devotion to the Sultan,<sup>190</sup> his relation with Basra remained strenuous.

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<sup>187</sup> Mr. F Viliers, Political Secretary, Foreign Office, November 25th, 1904 (R/15/5/59)

<sup>188</sup> Lorimer, *Gazetteer of the Persian Gulf*, V1, Historical, part 1A & 1B, 1915 p.1041

<sup>189</sup> Sir N. O’Conor, British Ambassador, Constantinople to Marquess of Lansdowne, January 20th, 1904 (L/P&S/19)

<sup>190</sup> Lorimer, *Gazetteer of the Persian Gulf*, V1, Historical, part 1A & 1B, 1915 p.1043-44



In a secret report in mid-1904 to the Grand Vizier, the Turkish Foreign Secretary recommended isolating Kuwait and Fao from Basra as separate Caza in order “to secure Basra and Iraq from the British aggression”<sup>191</sup> and populate the Governorate of Basra, which included Kuwait with non-Kuwaiti citizens.<sup>192</sup> He also recommended that Sheik Mubarak “be replaced with a trustworthy man by summoning him to the capital of the Wilayat and then be send to Constantinople with all honors.”<sup>193</sup>

Despite backstage maneuvering between the two powers, Kuwait itself, between 1905 and 1908, was calm. It was a time of peace and prosperity; the increase of pearling activities and the expansion of trade were evident in Kuwait’s ports.

### **Sheik Mubarak’s Consolidation of Power**

Until Sheik Mubarak’s ascension to power, Kuwait was governed by an equal partnership between the ruler and the rising merchants oligarchic, based on the historical origin of the founding families. Its politics were managed, since its inception, by the two partners in a pre-defined manner. Sheik’s clout was in the mandate to rule, while the merchant’s enduring influence was the result of their business venture and the resultant tax contribution to the treasury of the government and the rulers themselves.

Unlike the two powerhouses, most of the town’s population or those inhabiting the surrounding desert

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<sup>191</sup> Sir N O’Conor, British Ambassador in Constantinople to Mr. J H Monahan, British Council, Basra, August 26th, 1904 (R/15/5/5)

<sup>192</sup> Kuwait Wa Adarat Al Istaqlal, Kuwait, Management of Independence in the Othman Archives (Arabic), Translation by Kamal Ogulo, p. 194, published by Thatalsalasil,

<sup>193</sup> Sir N O’Conor, British Ambassador in Constantinople to Mr. J H Monahan, British Council, Basra, August 26<sup>th</sup>, 1904 (R/15/5/5)

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were poor. They were the workforce that was essential to sail on trade ships and to dive for pearls on the wealthy merchants' ships. They policed the town and guarded the ruling class. They were the builders and the artesian, fishermen, water providers, and hailers, providing virtually all the required manual works, and in the later years, the taxi drivers or oil workers. In spite of their numbers, they were politically marginalized by the two powers; their influence continued to be subdued by the alliance of the two dominating powers. They were never considered part of any council and, in the later years, were excluded from sharing in any election process.

Sheik Mubarak's rise to power changed the dynamic of the long-established pact. Whether his coup was part of a concealed rivalry with his brothers or for personnel financial imperative, his seizure of power came at the expense of the mercantile oligarchy.<sup>194</sup> He rearranged Kuwait's previously consensual government in favor of the ruling family and strengthened his rural footing away from the traditional urban base dominated by the merchant's families.

Sheik Mubarak's gradual break from the Ottoman Empire rule and the ascent of the British influence was characterized by broadening his power base to include the rural and the desert surrounding Kuwait. Despite strong ties to the sea, Sheik Mubarak extended beyond its limiting wall and sought support from the desert folks. His expansion into the desert gradually transformed the city into a state; however, his venture into the territories claimed by other tribes was bound to be challenged and forcefully resisted, leading to wars, conflicts, and more expenses. Despite the burden of higher taxes to subsidize the wars, the merchants were precluded from any

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<sup>194</sup> Ghassan Salame, *democracy Without Democrats? The Renewal of Politics in the Muslim World*, p. 93, I. B. Tauris Publishers

decision-making, including declaring wars. All state affairs, including the declaration of war, stayed as the Sheik's prerogative, disregarding the traditional rule by consensus that defined their historical relationship.

Strenuous relationship between the Sheik and his subjects, both the ordinary citizens and the merchants, resulted from the imposition of new taxes, was looming. The Sheik levied a series of new taxes, including pearl fishing, pilgrim, import, and housing. He introduced a formal custom office and imposed a mandatory five percent tax on all goods coming to Kuwait, including those from the territories under the Ottoman rule, to support his ambition to expand and finance his battles and wars. His taxes gradually increase to ten percent on selected goods.<sup>195</sup> However, the most severe grievance was the new tax imposed in 1907 on house owners, causing considerable dissatisfaction in the town.<sup>196</sup> Confrontation flared, though peaceful, once the Sheik levied additional tariffs on all pearl fishing boats. Understandably, it did not go down well with the pearl merchants. The lead pearl merchants migrated from the country to Bahrain with their followers that included divers and ship crew tempted by the promise of annulling their loans to the ship owners. The loss of half of Kuwait's population and the potential demise of revenue forced the Sheik to make enough concessions for the merchants' return.

## **Turmoil in the Middle East**

Turmoil and changes erupted in several Middle East countries even before the breakout of the Great War in Europe and the Middle East. King Abdul-Aziz had regained

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<sup>195</sup> Khazel, Hussain, Kuwait's Political History, (Arabic) v2, p296

<sup>196</sup> Lorimer, Gazetteer of the Persian Gulf, Historical, part 1A & 1B, p.1046-1047

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Najd in 1904, turbulence and marches in Persia led to the introduction of the constitution in 1905, and in 1908 the revolution of the Young Turks ended Sultan Abdel Hamid's reign in Turkey.

Persia's turbulence promoted the British to occupy southern Persia by force and allowed the Russians to expand their influence in the north. The two powers divided the country into spheres of influence, separated by a zone ostensibly controlled by the Persians. The British soon entrenched their presence in Persia once the oil was discovered in Masjid Suleiman in 1908 by the British/Australian miner William Knox D'Arcy. The discovery intensified the rivalry between the European powers, already actively competing for the Middle East's resources and deeply immersed in jockeying for influence in the Berlin-Bagdad Rail venture.

The rise of the Young Turks to power in Turkey in 1908 advocated strong Turkish nationalism, led to a constitutional Government, and introduced programs to modernize the Empire. However, their new policy under the banner of the Committee of Union and Progress (CUP) suffocated their Arab subjects in the Arabian Turk region. In their desire for Turkification of its subdued Arab population, the new government in Constantinople imposed the Turkish language and reassigned the higher regional administration to Turks only. Despite the Young Turk liberal claims, their outlook was fiercely nationalistic and offensive to the multiracial and multi-faith population in both ends of the Empire. Their biased attitude contradicted the famed values of tolerance that sustained the Empire for five hundred years and allowed the Arabs in Syria and Mesopotamia and other indigenous populations in Europe a great deal of freedom for self-government, so long they pledge allegiance to the Sultan.

The attitude of the new Turkish government, despite the Turkification drive, toward Kuwait became more tolerable after the removal of Sultan Abdel Humid II. The Sheik was referred to as the “Ruler of Kuwait” rather than the Qaim-Maqam of Kuwait<sup>197</sup>. The Wali of Basra even offered the Sheik an “official Turkish recognition as responsible for the whole northwest Arabia” on behalf of the Turks, provided he agreed to the establishment of Turkish presents in Kuwait and a permanent detachment of Turkish soldiers and officers were stationed in Kuwait.<sup>198</sup> Despite the Sheik’s courting of the Wali of Basra, he opposed the Wali overtures and had no intention of permitting Turkish officials or personnel to reside in Kuwait.<sup>199</sup>

The Young Turks had their share of hawks that promoted the use of force in Mesopotamia and Kuwait to subjugate its population to the Turkish rule. Deputy of Bagdad Ismail Hakki Bey expressed his hostile views in an article published in the Iraqi newspaper “Tanin” in January 1910. He instigated military intervention in Kuwait, established a sea and land blockade to stop importing arms into Iraq, quell the rebellious armed tribes, and dispose of those tribal sheiks.<sup>200</sup>

Perhaps the Political Agent summoned up Kuwait’s situation by the end of 1910 in his letter to the Political Resident. He noted that “the Sheik desires absolute independence is certain, but he has sufficient acumen to see that his property on the river furnishes Turkey with a valuable hostage for himself. We, for our reasons, do not

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<sup>197</sup> Anscombe, Frederick F. *The Ottoman Gulf*, New York: Colombia University Press, 1997 p. 139

<sup>198</sup> Extract from Kuwait diary No 24 for the week ending June 15<sup>th</sup>, 1910 (R/15/5/25)

<sup>199</sup> Letter from Captain Shakespeare Political Agent Kuwait to Political Resident, Bushire, May 29<sup>th</sup>, 1912 (R/15/5/5)

<sup>200</sup> Tanin, Iraqi Newspaper, December 20<sup>th</sup>, 1910, “Cause of unrest in Iraq” Records of Kuwait v1 p. 339

desire the growth of Turkish influence at the head of the Gulf, and that Kuwait is therefore in the happy position of being sought by two great Powers, thus affording him a lever by which he can increase his importance while balancing the two powers against each other in all matters concerning himself."<sup>201</sup>

Both the British and the Turks realized that it was time to tactfully resolve the diplomatic difficulties they faced over the status of Kuwait. The desire to resolve multiple conflicts around the Gulf and the British hope of appeasing Turkey not to join the German side became vital. The Turkish Minister for Foreign Affairs, Rifaat Pasha, first suggested a convention in February 1911 to the Turkish Grand Vizier Hakki Pasha, a staunch promoter for reclaiming Kuwait, and to the British Ambassador to the Porte Sir Gerard Lowther.<sup>202</sup> The proposed Convention was to settle all matters of the region, perhaps most urgently the issue of Kuwait.

### **The Anglo-Turkish Convention 1912-1913**

The contrasts between the British and the Ottoman Empires' strategic objectives were narrower than first perceived; in retrospect, their positions mirrored the ongoing Status Quo.<sup>203</sup> The British negotiation objective was more inclined to safeguard British command over Kuwait's coast and ports, including the northern islands, control of the Berlin-Bagdad Rail's final depot, and secure

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<sup>201</sup> Confidential Letter No C-36, from Captain Shakespeare Political Agent Kuwait to Political Resident, Bushire, June 15<sup>th</sup>, 1910 (R/15/5/5)

<sup>202</sup> Ethan Tyler, *A British Lake, Kuwait and the 1913 Anglo-Ottoman Convention*, The University of North Carolina, Department of History, p. 49

<sup>203</sup> Ethan Tyler, *A British Lake, Kuwait and the 1913 Anglo-Ottoman Convention*, The University of North Carolina, Department of History, p. 48

Porte's recognition of the various British-Kuwaiti agreements. Porte, on the other hand, intended to retain the northern islands and the admission of His Majesty's Government on the Turkish suzerainty over Kuwait.

After two years of thorough discussion between the various British offices and officers in London, Bombay, and Bushire, and later through tedious negotiation between the two Empires, an agreement was concluded and signed. The two sides disregarded the Sheik of Kuwait and other Rulers in the region throughout the talks. The Sheik, according to the Political Agent, "has not been informed of the course of the negotiations, nor of the Turkish demands, nor our suggestions or concessions thereto, he has left his case in our hands with the expectations that we will at least see his just demands satisfied."<sup>204</sup>

"The Convention Respecting the Persian Gulf and Adjacent Territories between His Majesty the King of United Kingdom, and His Imperial Majesty the Sultan of Turkey" was signed by the British Foreign Secretary Sir Edward Grey, and the Grand Vizier in Porte Hakka Pasha on July 1913, just a year before the break out of the Great War (Appendix 3). It was seen by all the parties as half measures and was not void of contradictions.

Britain's recognition of the Ottoman Empire's suzerainty over Kuwait and the explicit admission of Kuwait as a Cazi of the Ottoman Empire contravened the 1899 understanding that Kuwait stood as a political entity free from foreign influence<sup>205</sup> and contradicted the Turkish recognition of all the treaties concluded between the Sheik and the British, including the 1899 Treaty. The formal recognition of all the treaties between the Sheik and the Indian Government safeguarded the British strategic and

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<sup>204</sup> Confidential Letter No 8 C, from Captain Shakespeare Political Agent Kuwait to Political Resident, Bushire, April 30<sup>th</sup>, 1913 (R/15/5/5)

<sup>205</sup> The British Library IOR/R/15/1/7392

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economic advantages,<sup>206</sup> but the dual influence over Kuwait was bound to cause future conflicts.

For Lord Curzon, the terms of the Convention were ludicrous: "It seems to me that we are now in the quaint situation of having admitted and denied the suzerainty of the Sultan, both accepted and repudiated his sovereignty, and both asserted and given away the independent of the Sheik."<sup>207</sup>

The Convention, nonetheless, gave physical shape to Kuwait's territory for the first time in its history, recognized by the Ottoman Empire. Its borders were defined by an inner boundary of 40 miles radius, including the Islands of Warba and Bubiyan, and an outer limit of 140 miles radius in which "the tribes lying within are recognized as dependent on the Sheik, and shall collect tithes and shall exercise over them the administrative functions which attached to him in his capacity of Ottoman Qaim-Maqam."<sup>208</sup> Representatives of the two Empires agreed that the Sheik to "enjoy complete administration autonomy without any Turkish interference in his affairs, including the question of succession, and from any administrative act or occupation, and any military act."<sup>209</sup>

The agreement secured Sheik Mubarak's autonomous rule but precipitated the notion that his territory was within the domain of the Ottoman Empire.<sup>210</sup> The outcome was somewhat expected; the British were keen to appease

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<sup>206</sup> Article 3 of the Anglo-Turkish Convention in 1913 (See Appendix)

<sup>207</sup> David Finnie, *Shifting Lines in the Sand: Kuwait's Elusive Frontier with Iraq*, p.20

<sup>208</sup> Articles 5 and 6 of the Anglo-Turkish Convention in 1913 (See Appendix)

<sup>209</sup> Articles 2 of the Anglo-Turkish Convention in 1913 (See Appendix)

<sup>210</sup> Michael S. Casey, *The History of Kuwait*, Greenwood Press, p.31



Turkey before World War One in the hope of ceasing the growing German influence there and help the Porte to "consolidate its power in the Asiatic dominions."<sup>211</sup>

The loss of full autonomy was described by the compassionate Political Agent Captain William Shakespeare as "rather formal delivery of Kuwait into the hands of Turkey by the power which hitherto safeguarded them from the menaces of that very Power."<sup>212</sup> He criticized the Convention as an "acknowledged Turkish suzerainty hitherto disputed, and permitted a Turkish official hitherto strenuously opposed."<sup>213</sup> He noted that the Convention prejudiced the aspiration of the Sheik and Kuwait's population, but perhaps the most unpalatable British concession was the unprecedented acceptance of an Ottoman commissioner "upon unwilling Ruler and the people."<sup>214</sup> The Sheik's authentic engagement with the British was precisely the motive to protect him from such eventuality.

The Convention was a regression for Sheik Mubarak's quest for his independence from the Ottoman suzerainty. His resentment for being "sacrificed for some quid pro quo elsewhere" and placing a Turkish Agent in his territory was hard for him to overcome.<sup>215</sup> He had resisted the stationing of a Turkish officer in Kuwait all along; it was,

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<sup>211</sup> Efraim Karch, and Inari Karsh, *Empire of the Sand, The Struggle for Mastery in the Middle East 1789-1923*, p. 174

<sup>212</sup> Confidential Letter No 8 C, from Captain Shakespeare Political Agent Kuwait to Political Resident, Bushire, May 28th, 1913 (R/15/5/65)

<sup>213</sup> Confidential Letter No 8 C, from Captain Shakespeare Political Agent Kuwait to Political Resident, Bushire, May 28<sup>th</sup>, 1913 (R/15/5/65)

<sup>214</sup> Confidential Letter No 8 C, from Captain Shakespeare Political Agent Kuwait to Political Resident, Bushire, April 30<sup>th</sup>, 1913 (R/15/5/5)

<sup>215</sup> Confidential Letter No 8 C, from Captain Shakespeare Political Agent Kuwait to Political Resident, Bushire, April 30<sup>th</sup>, 1913 (R/15/5/5)

## CONSOLIDATION OF POWER

in fact, Basra's Wali attempt to impose Turkish administrators that motivate the Sheik to request a treaty in 1897. The Sheik ultimately accepted the outcome, not having any real choice, with obvious reluctance, awaiting the ratification of the Convention that never came.

The unfortunate death of Captain Shakespeare in a battle of Jarab between Najd and Shammer in January 1915 during the visit of the Viceroy of India, Lord Harding, angered Sheik Mubarak and was a loss for the British Diplomacy. In his book, St. John Philby described Shakespeare's military experience and political sagacity in his dealing with the Arabs of the desert as an ideal British representative and an equal contributor to the British policy as Colonial Lawrence.

Still, there was a silver lining. The Convention framed Kuwait as a separate territory with defined boundaries that included the northern Islands of Warba and Bubiyan. The two sides recognized Kuwait as Cazi under the Empire rather than an extension of Basra; its status and bilateral relationship were a matter of concern with Constantinople rather than Bagdad or Basra. The autonomous nature of the Sheik's rule, though far from satisfactory, kept the Turkish out of interfering in his domestic or external affairs.

The two sides had agreed to ratify the Convention in three months period, but it was postponed to October 31<sup>st</sup>, 1914. Though the Turkish Government ratified the 1913 Anglo-Turkish Convention, the British Government abstained from ratification once the war broke out. Its ratification was contingent on several preconditions upheld by the British Government, including the Berlin-Bagdad Rail system's settlement. Ultimately it fell through on the outbreak of World War One with the two signatories on the opposite sides of the conflict. Kuwait's outlook as an autonomous Cazi under Turkish suzerainty

became irrelevant once Turkey aligned with the Central Powers in the First World War; however, Kuwait's borders demarcation, particularly in the north, took shape.

The Sheik took advantage of the opportunity to break away from his attachment to the Ottoman Empire once the War broke out. Disregarding his disappointment with the Convention and overcoming the prevailing local sentiment in support of the Ottoman Empire, he sided with the British. He committed his support and allegiance to the British, "placing his efforts, his men, and his ships at their disposal," and cooperated with the Political Resident, Sir Percy Cox, to precipitate a rebellion among the Arab population in Basra against the Ottoman rule.<sup>216</sup>

Cox promised the Sheik on November 3<sup>rd</sup>, 1914, just two days before the British declared war on Turkey, his Government's assurance that Kuwait would be "recognized as an independent principality under the British protection" in return for his declared co-operation against the Turks in the war. The promise was renewed henceforth to his successors.<sup>217</sup> Cox's promise was a breakthrough; it was the first time that Britain recognized Kuwait as an independent entity.

Sheik Mubarak managed, before the arrival of the British forces, to engage the Turkish troops, occupy border posts, and even attempted, though half-heartedly, to assault Basra.<sup>218</sup> Instead, Kuwait became a base for the incoming British troops from India and the Far East, a depot for their supply, and a safe venue for their deliberation and meeting.

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<sup>216</sup> Edward Meade Earle, *Turkey, the Great Powers, and the Bagdad Railway: A study in imperialism* p. 284

<sup>217</sup>Appendix containing précis of Treaties and Engagements between Ruler of Kuwait and the British Government, 1899-1921 (R/15/5/393)

<sup>218</sup>R H Dickson, *Kuwait and its Neighbors*, p.142

**CONSOLIDATION OF POWER**

## **4 In the Time of War and Peace**

The breakout of World War One in August 1914 in Europe between the Central Powers of Germany and Austria-Hungary against the Triple Entente, Great Britain, France, and Russia eventually spilled into the Middle East. In Europe, the German army dominated the land battle rolling into Belgium and advancing on the French frontiers, desperately resisted by the British and the French troops.

In the months preceding the declaration of war, the British and the Germans were busily courting Turkey to their respective side or at least to a neutral stand. But in reality, Istanbul's neutrality was hardly an option, the war was too close to its borders in Europe, and all the combatants had some vested interest in the Turkish territories. For the East Europeans, it was time to resolve the residual conflict and bitterness of the long years of the Ottoman Empire's suzerainty over the Slavic Christian population. For the Russians, it was their desperate and perpetual quest for a warm water seaboard through the Turkish-controlled straits of Bosphorus and Dardanelles. And for Turkey itself, it was a chance to finally end its

Capitulation and the financial burden of the European powers and perhaps regain some of its old lost glories. Djemal Pasha, one of the trios that governed the Turkish Empire during the war, declared his government position, "I consider this new crisis that has emerged to be a blessing. I believe that it is the Turks' ultimate duty either to live like an honorable nation or to exit the stage of history gloriously."<sup>219</sup>

The British were keen to have the Turks on their side, to assure the sympathy of the massive Muslim population in its colonies and circumvent probable uprising if instigated by the Calipha in Istanbul. Britain was worried that Russia would be cut off if Turkey joined the German and, in the process, close the vital straits. Though a fair amount of diplomacy was underway between the various European Capitals throughout the summer of 1914, Turkey sided with the Central Powers against Great Britain, one of its oldest allies. Turkey's decision extended the war to Turkey, the Black and Aegean Seas, Egypt, Syria, and Mesopotamia. Perhaps there is no decision made in the twentieth century that influenced the future of the Middle East as that made by Turkey to join Germany and Central power.

Germany attempted to initiate the religious war and instigate an uprising by the Calipha against the British in India, Persia, Egypt, and Mesopotamia. However, the notion that the Muslims were ripe for Jihad against the British colonial forces proved by the end of the war of little importance.

The European conflict spread to the Middle East as soon as Britain declared war against Turkey in early November 1914. The fear of possible agitation in the northern head of the Gulf, once hostilities with Turkey started,

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<sup>219</sup> Scott Anderson, *Lawrence in Arabia*, Atlantic Books, London p. 9

threatened Britain's allies in Kuwait and Muhmmara and its oil infrastructure in Persia if left unsupported. The Political Secretary to India's Office expressed his government's resolve to protect its allies; he expressed his sentiment that Britain "cannot begin by scarifying the Sheik of Kuwait."<sup>220</sup> Evidentially the threat was merited; Turkey had by early September 1914 dispatched 2000 troops to Basra to protect the waterways and to "be sent toward Kuwait."<sup>221</sup>

Even before Turkey's declaration of war, the importance of the Gulf for the Allies and the lurking danger was summarized in a Memorandum by the Political Secretary to India Office. he noted that "The political effect in the Persian Gulf and in India of leaving the head of the Gulf derelict will be disastrous, and we cannot afford, politically, to acquiesce in such a thing for an indefinite period while the main issues are being settled elsewhere."<sup>222</sup> The British had realized that their position could be precarious in Persia and Iraq if they relied solely on their local allies, most obviously Sheik of Muhammara, to protect their oil infrastructure in Iran. The British recognized that tribes and local forces with limited capabilities would not be able to thwart possible sabotage of oil facilities, impede attack on the Anglo Persian Oil Company's port<sup>223</sup> on the Gulf, or halt the disruption of oil supplies from the Persian fields.

The British prime minister half-heartedly agreed by the end of September 1914 to dispatch the Indian Expedition Force (IEF) to the Gulf just a month before the Turkish

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<sup>220</sup> Philp Graves, *The Life of Percy Cox*, p.175

<sup>221</sup> Brig-Gen. F. J. Moberly *History of the Great War based on official documents, The Campaign in Mesopotamia 1914-1918*, vol 1. p. 79

<sup>222</sup> Philp Graves, *The Life of Percy Cox*, p.175

<sup>223</sup> Brig-Gen. F. J. Moberly *History of the Great War based on official documents, The Campaign in Mesopotamia 1914-1918*, vol 1. p. 78

declaration of war against the Allies. The first unit was sent in November tasked explicitly with the protection of the oil installations.

Sheik Mubarak sided with allies from the onset of the war despite growing sympathy with Turkey and spreading anti-British activities in Kuwait and many Arab cities. Despite the call for jihad against the British, he expressed his explicit backing of Great Britain in a letter to India's Viceroy<sup>224</sup>, offering whatever assistance he can. The Political Resident requested the Sheik to attack and seize the frontier towns of Um Qasr, and Safwan and the island of Bubiyan near Kuwait's border and to "endeavor in co-operation with other reliable Sheiks to liberate Basra from Turkish possession." Realizing Sheik's limited power, the Political Resident noted in his letter that "Should this prove to be beyond your ability, you should make arrangements, if possible, to prevent Turkish reinforcement from reaching Basra until the arrival of British troops."<sup>225</sup>

The Sheik managed, according to a British military observer, to tie down a sizable Turkish force in Southern Iraq that could have been fighting elsewhere in the Middle East.<sup>226</sup> He also provided detailed intelligence on the number and whereabouts of the Turkish troops to the British before General Arthur Barrett attack Basra in November 1914. Kuwait's port provided logistic support for the British and the Indian armies and was homeport to

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<sup>224</sup> Brig-Gen. F. J. Moberly History of the Great War based on official documents, The Campaign in Mesopotamia 1914-1918, vol 1. p. 79

<sup>225</sup> Letter from the British Political Resident in the Gulf to the Sheik of Kuwait regarding the independence of Kuwait from the Othman Empire, November 3<sup>rd</sup>, 1914, p. 37-38, The Kuwait Crisis: Basic Documents, Cambridge International Documents Series v1.

<sup>226</sup> Michael Casey, The History of Kuwait, p. 52, Greenwood Press



British hospital ships that supported medical evacuation to India.<sup>227</sup> Nonetheless, despite his support, his contributions, particularly in the early days of the war, were questioned by Michael Casey in his book "The History of Kuwait"; he characterized Kuwait's contribution as relatively weaker than the support other Arab leaders gave.<sup>228</sup>

In return for his support, the British Government promised Sheik Mubarak independence from any Turkish suzerainty. The Political Resident was explicit in his letter that if his government successes in their war effort in Mesopotamia, it would "recognize and admit that the Sheikdom of Kuwait is independent Government under British protection."<sup>229</sup>

The intended design of British war activities on the head of the Gulf was to occupy Mesopotamia and protect the oil facilities of the nearby Anglo-Persia Oil Company. But perhaps London's agenda was the domination of the untapped oil resources around the Gulf region. They realized the strategic need to control the supply of oil if the British Empire were to sustain its global hegemony. Though the war was always perceived as a European affair, Britain moved a large number of its arm forces into Mesopotamia, with their eyes on the oil-rich Province of Mosul in the northeast of Iraq.

The Indian Expedition Forces occupied Fao, an area between Basra and Abadan in Persia, and on November 23<sup>rd</sup>, 1914, Basra fell. The British soon occupied the elevated town of Shubia 10 miles west of Basra after a

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<sup>227</sup> Michael Casey, *The History of Kuwait*, p. 53, Greenwood Press

<sup>228</sup> Michael Casey, *The History of Kuwait*, p. 52, Greenwood Press

<sup>229</sup> Letter from the British Political Resident in the Gulf to the Sheik of Kuwait regarding the independence of Kuwait from the Othman Empire, Nov 3<sup>rd</sup>, 1914, p. 37-38/*The Kuwait Crisis: Basic Documents*, Cambridge Int. Documents Series v1.

tough fight that saw the British victorious, but just. It was a back-and-forth scrimmage with the Turks and Arabs. Shubia's importance was described by the eventual Inspection General of Communication in Mesopotamia, Lieutenant-General Sir George MacMunn, "as one of the decisive battles of the war." He predicted that the Ottoman forces' success would have unraveled the whole British policy and interest in the Gulf.<sup>230</sup> Shubia became the British Royal Air Force Base until the 1958 revolution, and in many ways, it symbolized the British presence in Iraq. The British-Indian Army soon occupied Quarna, north of Basra, where the two rivers of Iraq meet, and the city where Garden of Eden was supposedly built in antiquity.

In spite of the fall of Basra and the backing of Sheik of Muhmmara in southern Persia, pro-Axis elements disrupted the British telegraph system and continuously attacked the oil pipeline between the oil fields and the Port of Abadan.<sup>231</sup> No sooner than the British-Indian forces settled in Basra, 70 miles from the coast, the British Chief Political Officer in the Gulf Sir Percy Cox advocated marching on Bagdad more than 500 miles away.<sup>232</sup> Evidentially he was encouraged by Sheik Mubarak's congratulatory letter on November 25<sup>th</sup>; as he wrote, "your victories have delighted me; next, please God, you will take Bagdad."<sup>233</sup> By then, Bagdad was a small city of less than a million inhabitants; it had long lost its glamor and political significance. However, the capture of Bagdad

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<sup>230</sup> Paul Knight, *The British Army in Mesopotamia, 1914-1918* p. 25-26. McFarland & Company Publication

<sup>231</sup> Paul Knight, *The British Army in Mesopotamia, 1914-1918* p. 20. McFarland & Company Publication

<sup>232</sup> Paul Knight, *The British Army in Mesopotamia, 1914-1918* p. 18. McFarland & Company Publication

<sup>233</sup> Paul Knight, *The British Army in Mesopotamia, 1914-1918* p. 18. McFarland & Company Publication

would have expedited Turkey's defeat, and once for all, it would have established Britain's foothold near the new oil fields, not yet explored, of northern Iraq. In retrospect, its occupation proved worthwhile. The British eventually controlled Iraq and became, despite the Skye-Picot arrangement, in charge of Iraq's post-war oil concession.

The march to Bagdad proved challenging and difficult. The sick man of Europe was much harder to defeat. Mesopotamia became another challenging frontier that the allies had from the outset taking for granted. Inching toward Bagdad, the British Army's next target was the towns of Amara and Kout, on the Tigris River, 100 miles south of Bagdad. Their occupation would secure Basra to the south and the oil pipelines in Persia not far from Iraq's border. However, under the command of Halil Pasha, Turkish forces soon handed the British their first setback in Mesopotamia. In November 1915, six months after the Allies failed in their attack on Gallipoli Peninsula, the Turkish counter-attacked and took more than 13,000 British and Indian soldiers under the command of Major General Townshend as prisoners of war after a long and humiliating siege of Kout that lasted till the end of April 1916. The British Historian Christopher Catherwood described the loss and the unconditional surrender "as the worst defeat of the Allies in World War One."<sup>234</sup>

The British Indian forces retook Kout-Amara in February 1917, and soon Bagdad. The capital city of the Abbasiah fell in March 1917 with practically no resistance. The fall of Bagdad marked the end of the Ottoman presence in Mesopotamia's ancient land and perhaps a prelude to the end of the Empire itself. The British advanced northward and took Mosul in November 1918, just as the World War was winding down.

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<sup>234</sup>Christopher Catherwood, *The Battles of World War I*. Allison & Busby. P. 51-2

The British victory brought all the three Turkish Governances of Iraq, Basra, Bagdad, and Mosul under British authority. The defeat of Turkey and the Central powers dawned a new Middle East, in which the British and the French were in direct control of the territories hitherto governed by the Ottoman Empire. The armistice of 1918 brought joy and relief in Europe and the Middle East and profound changes to its political map. Long ruled By Ottoman Empire, the territories of Syria, Hejaz, and Mesopotamia were freed from the Turkish overlord only to find themselves under the British and the French domination despite US President Woodrow Wilson's commitment to self-determination. Turkey surrendered all its Arab population and land to France and Britain as part of the treaty of Serves signed in August 1920.

The Young Turks' decision to side with Germany and the Central Powers cost them dearly. Their eventual defeat marked the end of the Islamic Caliphate that had lasted for more than 1300 years, ended the Empire of Ottoman that lasted since the fifteenth century, and profoundly changed the future direction of the whole of the Middle East.

## **The Short Reign of the Two Brothers**

Three different Sheiks ruled Kuwait while World War One in Europe and Iraq raged. Although Sheik Mubarak and his sons had declared outright loyalty to the British during the war, their enmity and hostility toward the Turks varied. Sheik Mubarak fully supported the British in his desperate quest for independence from the Ottoman Empire's suzerainty but was not the same with his two sons that succeeded him. Sheik Salam's pious sympathy toward the Turks was unjustly interpreted as a political

tendency toward the Porte with little to support that assumption. British perception of Sheik Salam's attitude did put Kuwait's position at risk; the British Officers in the Gulf threatened the Sheik of possible loss of the British commitment toward his country.

Sheik Mubarak died in November 1915, around the first anniversary of the war, succeeded by his eldest son Sheik Jaber to the throne. As was customary in the Gulf Arab territories, he promised the British his fidelity and to follow his father's steps in his relationship with them. The British, as expected, gave him their acceptance and blessings. The British were mildly anxious about possible unrest if his younger brother Sheik Salam also claim the throne. The Political Resident requested a naval ship off the coast of Kuwait, but the succession was peaceful. Salam was at that time away on an expedition on a tribal war, but he graciously accepted to serve his brother faithfully.

Kuwait's citizens saw sheik Jaber as fair-minded, humble, and kind; he reigned in the period that British forces' progress in Iraq was stalled and sieged by the Turks. He was friendly with the British officers in the Gulf and was, as noted by Percy Cox, seemed too eager to please with his overture of loyalty. Likewise, the British responded with eagerness to control and dictate policies in all the critical matters; the Political Resident moved for complete dominance.<sup>235</sup>

Locally, he eliminated the despised land sale taxes that were instituted by his father. Wealth and business flourished, soared by wartime desert trade. But it was precisely the desert trade that became the source of annoyance and nuisance in his and his successor's relation with the British till the end of the war.

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<sup>235</sup> Chief Political Officer, Basra to Political Agent Kuwait September 2<sup>nd</sup>, 1916 (R/15/5/25)

To a large extent, it was Sheik Jaber's easy manners and friendly attitude, especially toward Ruler of Nejd Sultan Abdul Aziz (later King of Saudi Arabia), that eased the strenuous relationship that prevailed in the final days of Sheik Mubarak's rule. Just a month into his reign, the British Political Resident and Amir of Najd signed The Treaty of Darin in December 1915, in which Najd pledged to restrain his forces and refrain from attacking the neighboring countries that were under British protection, including Kuwait.

Sheik Jaber ruled for a little over a year; he died on February 5<sup>th</sup>, 1917, succeeded by his brother Sheik Salam. In his report, Cox described the new Sheik as a man with more energy and discipline than his deceased brother with a strong link and influence over the tribal chiefs. The British authorities described him as tactless, narrow in his outlook, but with a strength of purpose.<sup>236</sup> The British blamed his puritan beliefs for stifling the country's social ease; he tightened alcohol use and vice, closed the brothel houses, and applied more religious laws. He introduced better administration to improve the lax but deteriorated order and abolished some local taxes. Still, despite his puritan attitude and the pressure from the mullahs of the day, the Sheik, as reported by the thrilled Political Agent, persisted in protecting the Christian missionaries' rights.<sup>237</sup>

He formally expressed his firm attachment of loyalty to the Crown, met the colonial condition for recognition, and agreed to follow the advice of the Political Resident and Agent.<sup>238</sup> His personal trait helped him establish himself as

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<sup>236</sup> General Report (Confidential), Kuwait, 1908-1928 by Mr. J Laitwaite, Indian Office, October 1<sup>st</sup>, 1928 (CO732/33/10)

<sup>237</sup> Political Agent, Kuwait to Sir Percy Cox, Basra, March 8<sup>th</sup>, 1917 (R/15/5/19)

<sup>238</sup> Percy Cox, Basra to Arab Bureau, Cairo, February 16<sup>th</sup>, 1917 (R/15/5/17)

the ruler, but soon he ran into conflict with both the British and Najd.<sup>239</sup> In contrast with his predecessor, Sheik Salam's reign was lively but strenuous, particularly with Amir Abdul Aziz, and dominated by conflict over the enforcement of the British's blockade on the Turkish territories.

The war in Iraq was still raging at the time of Sheik Salam's reign; the British army was closing in on Bagdad, at last, captured in March 1917, and were ready to move northward in a purse of the Turkish Sixth Army, and toward Mosul. The British tightened their grip and imposed a naval blockade on the territories of the Ottoman Empire in the Mediterranean and a land blockade throughout the Arabian deserts. The obstruction of the passage of food, ammunition, and other necessities to the Turkish army and the Arab tribes aligned with the Turks invariably inflated the prices of goods and caused a food shortage in Mesopotamia, Medina, and eventually famine in some Syrian cities.<sup>240</sup> Meanwhile, the local British administrators issued food coupons to the friendly tribes to meet their needs and dispensed rations from warehouses they assembled in Kuwait and Southern Iraq.

Demands for smuggled goods were understandably growing; the Political Agent reported that the need for goods from Kuwait in the first quarter of 1918 alone had already equaled the demand of the whole of 1917,<sup>241</sup> and the number of caravans was becoming enormous for the Sheik to handle. The British attempts to run a tight blockade was near impossible. Not only because there was not much control over caravan once they left their

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<sup>239</sup>General Report (Confidential), Kuwait, 1908-1928 by Mr. J Laitwaite, Indian Office, October 1<sup>st</sup>, 1928 (CO732/33/10)

<sup>240</sup> Hussein Sheik Khazel, Political History of Kuwait v4, p. 106 (Arabic)

<sup>241</sup> Telegram from Office of Civil Commissioner, Bagdad to Political Agent Kuwait, May 29<sup>th</sup>, 1918 (R/15/5/101)

controlled territories in Kuwait, South of Iraq, or the deserts of Najd, but the temptation to make a fortune from the lucrative business of importing rice and other necessities and smuggling it through the blockade was hard to resist.

Despite Sheik Salam's keenness to comply with the British orders in dealing with the different tribes traversing Kuwait, the Sheik was continuously accused of lax control and enriching himself and some of his countrymen smuggling goods from his territory. Perhaps the detection of abnormal quantities of smuggled food and other goods in its way to the enemy<sup>242</sup> originated from Kuwait was the last straw. The British wartime administration in the Gulf accused him of complacency in enforcing slippage of goods from the British designated warehouses in Kuwait and allowing the merchants direct importation of goods to be smuggled to the tribes aligned with the Turks while collecting taxes on all transactions in his territory.

The Sheik denied these charges, insisted that he endeavored to control illicit activities from his territory. His government monitored the Bedouins' movement once inside Kuwait, turned away unauthorized caravans or those without passes issued by the Political Agent in Kuwait or the British authorities in Basra.<sup>243</sup> He insisted that he had forced the merchants to issue written promises that their goods would not find their way to Turkish friendly forces.<sup>244</sup>

Nonetheless, the British considered Kuwait the weakest link in its blockade effort and had at one point

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<sup>242</sup> Telegram from Office of Civil Commissioner, Bagdad to Political Agent Kuwait, May 29<sup>th</sup>, 1918 (R/15/5/101)

<sup>243</sup> Telegram from Office of Civil Commissioner, Bagdad to Political Agent Kuwait, May 29<sup>th</sup>, 1918 (R/15/5/101)

<sup>244</sup> Hussein Sheik Khazel, Political History of Kuwait v4, p. 108 (Arabic)



contemplated stationing troops for tighter control since, as expressed by the Political Resident in Bagdad, "the Sheik is unable or unwilling to prevent traffic."<sup>245</sup> The Political Agent requested the Sheik to report all the ships that docked in Kuwait port, quantities of imported and exported food, as a way to monitor and control direct importations by the merchants of goods destined to the hands of Turkish friendly tribes.<sup>246</sup> In February 1918, the Sheik, under considerable pressure, agreed to the Political Agent demand to allow British Officers and ranks to stop the illicit traffic of the goods originated from Kuwait to the interior.<sup>247</sup> The British instituted a naval blockade of Kuwait in February 1918 that lasted to the armistice in November 1918. The Officers monitored the movement of goods in and out of the territory, enforced rigorous review of Customs records, and imposed an elaborate accounting scheme of the merchants' warehouses and private books. The British took the liberty to search homes and inspected warehouses for goods and the monies that each merchant had.

Evidentially, all smuggling almost ceased overnight, once the Political Resident warned the Sheik that HMG friendship and protection of Kuwait were conditional on preventing harm to the British interest.<sup>248</sup> British attitude changed after the war, perhaps on the heel of their realization of the unjustified blockade. The British Government lifted the naval blockade and compensated

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<sup>245</sup> Telegram from Office of Civil Commissioner, Bagdad to Political Agent Kuwait, May 29<sup>th</sup>, 1918 (R/15/5/101)

<sup>246</sup> Hussein Sheik Khazel, Political History of Kuwait v4, p. 114 (Arabic)

<sup>247</sup> Hussein Sheik Khazel, Political History of Kuwait v4, p. 148 (Arabic)

<sup>248</sup> Michael Casey, The History of Kuwait, p. 53, Greenwood Press

the Sheik with a cash grant of 300,000 rupees for the hardship faced by the local population.<sup>249</sup>

The declaration of the armistice between the warring parties “necessitated a decision as to the status of Kuwait, which His Majesty Government had promised in November 1914 (Appendix 5) to recognize as an independent principality under the British protection.”<sup>250</sup> The Foreign Office finally settled Kuwait’s status.; they clarified that Kuwait “was governed by article 132 of the Treaty of Sevres”, and “from the legal standpoint, there was no intention of including Kuwait with the boundaries of Mesopotamia.”<sup>251</sup> The fact that Turkey, according to the article, renounced all her claims in favor of the Allies, all rights and titles over territories outside Europe, Kuwait’s status was regarded “as an independent Arab State under British Protection, but not a British Protectorate.”<sup>252</sup>

The end of the war and the lifting of the blockade in November 1918 did not bring expected prosperity to the people of Kuwait. Many of Kuwait’s citizens and the merchant community were dissatisfied with the Sheik method of government and his attitude toward the British during the war. The population was facing nepotism and hardship, while the merchant lost their business because of the British naval blockade and the cessation of trade with Najd.<sup>253</sup>

Perhaps influenced by the local sentiment, the British Political Agent expressed his dismay with Sheik Salam’s

<sup>249</sup> Hussein Sheik Khazel, Political History of Kuwait v4, p. 174 (Arabic)

<sup>250</sup> General Report (Confidential), Kuwait, 1908-1928 by Mr. J Laitwaite, Indian Office, October 1st, 1928 (CO732/33/10)

<sup>251</sup> General Report (Confidential), Kuwait, 1908-1928 by Mr. J Laitwaite, Indian Office, October 1st, 1928 (CO732/33/10)

<sup>252</sup> General Report (Confidential), Kuwait, 1908-1928 by Mr. J Laitwaite, Indian Office, October 1st, 1928 (CO732/33/10)

<sup>253</sup> Report on Discontent in Kuwait, signed by Assistant Political Agent, Kuwait, September 4th. 1918 (R/15/5/102)

ruling method and suggested the possibility of the disposal of the Sheik to Percy Cox, the Civil Commissioner in Bagdad. Cox prudently repudiated the Agent cited that the policy of the Indian Government was of non-interference with the local politics or the disposal of a ruler. In his reply, Cox noted that "neither the treaty nor the custom nor from motives of expediency, are we, called upon to accord moral assistance to the Sheik Salam. On the other hand, up to the present, his behavior has not been such to justify our taking active steps to depose him, whether at the request of his townspeople or on our own initiative. Our policy is to back the de facto ruler, but it is up to him to make good with his own people."<sup>254</sup>

Although Sheik's individuality and resolve secure his position locally, it became the cause of conflict and contention with Amir of Najd. The relationship with Sultan Abdul Aziz was at the end of the war at its lowest point. He blamed the Sultan for the unjustified hostile British attitude during the war and the unfair suffocating naval blockade of his country.<sup>255</sup> The uneasy personnel relationship between the two rulers and the unmarked borders separating Kuwait and Najd set the stage for the flare-up and conflict. Both wanted to establish de facto towns in areas they claimed for a possible advantage in the anticipated negotiation for border demarcation between the two states.

The Sheik was contemplating building a fort, and even a township in Balboul, a coastal city south of Kuwait claimed by both to be their own. Meanwhile, Sultan Abdul Aziz forces erected a camp in a desert area not far from Kuwait. The conflict finally came to a head in May 1920; Kuwaiti forces were routed without difficulty in the skirmish that broke out in Hamdh with heavy losses of life,

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<sup>254</sup> Telegram from Civil Commissioner, Bagdad to Political Agent Kuwait, August 31<sup>st</sup>, 1920 (R/15/5/94)

<sup>255</sup> H R Dickson, Kuwait and Her Neighbors, p. 260

livestock, and equipment and brought home the realization that attack on Kuwait City itself was imminent.

Feeling vulnerable, the Sheik inaugurated in the same month the building of fortification around the city flanked on both ends by the sea. The lurking danger did present an opportunity for the country and its disillusioned population to unite. Despite the difficulties of availing drinking water to the thousands of laborers and the unbearable summer heat coincided with the last few remaining days of the fasting month, Kuwait's citizens completed the four-mile-long clay wall with its five wooden gates in four months. An enormous amount of clay was used to build the twenty feet high wall, and massive quantities of timber and iron were utilized to construct the beautiful gates. It was, as described by an American doctor in Kuwait, "a magnificent achievement."<sup>256</sup>

The mounting tension between Kuwait and Najd on the demarcation of the undefined border compelled the British High Commissioner for Iraq, Percy Cox, to accept requests made by both the Amir of Najd and the Sheik of Kuwait for his arbitration provided they both accept the outcome.<sup>257</sup> To his dismay and objection, the British informed the Sheik that the border defined in the Anglo-Turkish Convention was nullified as a result of the war with Turkey and conflicted with the 1915 Treaty of Darin between Great Britain and Amir Abdul Aziz.<sup>258</sup> Kuwait's border, defined in the Anglo-Turkish Convention, was no longer on

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<sup>256</sup> Report on Kuwait situation and Ikhwan cities by Dr S G Mylrea, October 1920, Collection of Records of Kuwait 1899-1961, v1 editor A de L. Rush

<sup>257</sup> Confidential note on the Principality of Kuwait prepared for Political Resident, Bushire by Major J C More, Political Agent Kuwait, 1927 (CO732/33/10)

<sup>258</sup> Telegram from Sheik Salam Al Sabah to J C More, Political Agent, Kuwait, July 9<sup>th</sup>, 1920, cited in Hussein Sheik Khazel, Political History of Kuwait v4, p. 234 (Arabic)

the table; the British authorities in the Gulf were setting the stage for a premeditated shirking of Kuwait's territory. Cox failed to conclude a bilateral agreement between the rulers of the two territories, but finally, Kuwait's borders with Najd and the new Kingdom of Iraq were settled in Al Uqair Conference in November 1922.

## **The Jahra War**

The aftermath of the earlier fight in Hamdh and the unsettled border conflict between the two territories escalated into a war. The 4000 strong army of the Ikhwan's, loyal to Najd, were already on the move in early October 1920, and the war of Jahra was looming. They attacked the Sheik smaller army of 1500 on October 10<sup>th</sup>, 1920, in Jahra, a small agrarian village north of Kuwait, forcing the Sheik and his army to fortify in the Red Palace, named after its red clay walls on the southern end of the village. The attackers marched toward the besieged Kuwaiti army in the Red Palace, firing their guns in unison in the air for one full minute to signal the start of an attack and a sign of declaration of war. Their display of force was impressive, and the powerful effect of their unified firing terrorized the opposing fighters. Their first wave of attacks against the fortified Kuwait forces was repulsed, causing heavy losses and the death of many of their fighters. Notwithstanding their early setback, they pressed with more troops from different directions, this time inflicting heavy casualties on the Kuwait army.

The panicked population of the village, including fearful women and children, fled to the Red Palace. The besieged Palace, as described by a Kuwaiti soldier, was crowded with more than 1500 people with only brackish water from a well and some rice and dates. Desperately, the Sheik managed to dispatch for reinforcement after nightfall

through the attacker's lines to the city. Six hundred men, food, and ammunition arrived the next day, transported mostly by dhows and small boats to a nearby shore.

Despite Ikhwan's readiness for the final assault on the Palace, their leader opted for a conditional ceasefire. He demanded the surrender of the Sheik and his followers, cessation of vice, alcohol, and tobacco in Kuwait, converting its population to their righteous way, and demolition of the American hospital sponsored by Christian missionary.

The Sheik convinced the Ikhwan negotiators of his acceptance of their terms, provided they lift the siege. He and his followers were allowed to return to Kuwait to sign the final agreement. Realizing the gravity of the situation, the British, despite their earlier reluctance, deliberate delays, and slow response, finally agreed to place two naval ships (Espekel and Lorans) off Kuwait's coast and flew their planes over the Ikhwan's camp. They fired warning shots from the vessel throughout the night, while the aircrafts released leaflets warning the Ikhwan's of pending shelling if they did not back down.

The British threaten to interfere in the war in accordance with the clause of non-aggression declare in the 1915 Duran Agreement.<sup>259</sup> It finally dawned on the attackers that the British will not relinquish Kuwait, despite John Philby's earlier suggestion to merge the two countries.<sup>260</sup> The Sheik understandably rejected the invaders' demands once the British conveyed their support and promise of protection.

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<sup>259</sup> For full description of the Jahra confrontation, refer to Hussein Sheik Khazel, Political History of Kuwait v4, p. 258-288 (Arabic)

<sup>260</sup> Hussein Sheik Khazel, Political History of Kuwait v4, p. 251-252 (Arabic)

The Ikhwan retreated once they realized that they were deceived by Sheik's call for a negotiated surrender and the threat of the British involvement.

The death of Sheik Salam in February 1921 altered the dynamic of the ongoing negotiation between Kuwait and Najd in the aftermath of the Jahra war. The peace conference between Sultan Abdul Aziz and Sheik Ahmad Al Jaber was concluded with a promise of non-aggression and an amicable settlement.

Kuwait had since March 1921 was ruled by a new Sheik, a more amicable and tolerant than his predecessor and the country was finally at peace.

### **The Birth of New Iraq**

Iraq faced a new reality once the Ottoman Empire was defeated. The British/Indian army had overrun all the three Governances of Iraq: Basra in the south, Bagdad in the center, and Mosul to the north. The eventual Armistice in November 1918 between the warring parties ended three centuries of Turkish domination and brought both relief and chaos to the cities and the population of Iraq.

The future of Iraq had to be settled. The annexation or even colonization of Iraq was out of the question, considering the pressure exerted by the Americans to adhere to the US President Wilson doctrine of self-determination. Instead, Iraq was placed in April 1920 under the despised British mandate during the San Remo Conference. Although the mandate guaranteed British rule and domination, it was immediately resented by the Iraqi nationalists from both the seculars and the clerics, viewed with skepticism and a betrayal of the wartime promise for self-rule. The mandate's remoteness from "Complete Independence" was too oblivious;<sup>261</sup> it was disguised

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<sup>261</sup> Stephen Hemsley Longrigg, *Iraq, 1900 to 1950, A Political*,

colonization and did not meet the aspiration of the Iraqi population.

A civil government was installed headed by Sir Percy Cox but delegated to his deputy while he served in Tehran between April 1918 and October 1920. His absence backfired; signs of revolt against the British control were on the wall even before the declaration of the Mandate. Anti-British secret societies from both dominating sects of Islam were being formed and organized between 1918 and 1920. Violent riots and demonstrations in Bagdad and central Iraq against British rule soon broke out, interrupting the daily life and the activities of the bazaar. The country erupted into widespread unrest and violence in the summer of 1920, coinciding with Ramadan, once the news of the Mandate was announced. The "Revolution of the Twentieth or the Great Iraqi Revolution," as it became known, was led by the Shia clerics in Najaf and Karbala and by the tribal population in the south. It was fueled by fiery speeches by the religious leaders of both sects and was in full swing once the Shia cleric Imam Shirazi issued a fatwa calling for jihad against the ruling of the non-Muslim.

The riots were eventually quelled a few months later with the assistance of the Royal Air force, with losses in life and property on both sides and heavy expenses to the British Government and taxpayers. The uprising convinced the British of the need to substitute their direct rule to the milder self-government under the British High Commissioner. Once back in Bagdad in October 1920, Cox managed to form a provisional interim Arab government from influential Iraqi families and tribal chiefs. Although the new government was answerable to the British High Commissioner and heavily subjected to British control and advice, it somewhat calmed the unrest and quelled the

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Social and Economic History p.139, Oxford University Press



revolt. Despite the bitter relation between the Iraqi public and the British caretaker, many complex administration activities were organized for the impending government to function but continued under tight British control. Still, the outstanding question of a leader for the new Iraq was undecided.

The Cairo conference in March 1921 convened by Winston Churchill, the Secretary of Colonies, declared the formation of the self-ruled Kingdom of Iraq under British administration. The king seekers choice was Amir Feisal, son of Sharif of Mecca as the only tolerable candidate. Feisal was crowned in August 1921 as the King of Iraq, replacing Sir Percy Cox as the official head of the State.<sup>262</sup> The new King was now presiding over a new country that never enjoyed any sovereignty in its modern history and no definite frontiers; this came later.

At last, Iraq was ruled by an Arab king satisfactory to both Muslim sects and on good terms with the British. Though he was not of Iraqi descent, he was familiar with the army core of Iraq; most of Feisal's officers, during his fights to claim Damascus from the French, were Iraqis. He was accepted by 96 percent of the Iraqis to be their king in the one-question plebiscite conducted by the British. Nonetheless, he was seen as part of the British solution. This attitude was further enforced by the Anglo-Iraqi Treaty signed in October 1922 between the two governments that gave the direct British control over the Iraqi military and influence over its political and economic affairs. It was designed to allow self-governing but was heavily overshadowed by the British advisors and consultants. British officials were appointed in every government department as advisors and inspectors, paid equally by the two governments.

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<sup>262</sup> Stephen Hemsley Longrigg, *Iraq, 1900 to 1950, A Political, Social and Economic History* p.131-133, Oxford University Press

## 5 The Rivalry for Middle East Oil

*"No other element has shaped the history of the past one hundred years so much as the fight to secure and control the world's reserves of petroleum."*<sup>263</sup>

*"In view of the area's dominant position in the current world oil movement, as well as in reserves for the future, it should be clear that any understanding of the control over world oil must begin with the evolution of control over ME supply."*<sup>264</sup>

Oil and bituminous substance had seeped from the grounds in the region of the Middle East since antiquity. Throughout the centuries, its use was limited for water sealing, ointments, heating, and paving the roads in the ancient Bagdad and was finally distilled by chemists to produce kerosene for lighting and military purposes.

Demand for kerosene for lighting streets that started in Canada soon spread to the East Coast of the United States and Europe. Cheap kerosene produced from oil rather than more expensive lighting oils was the driving force

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<sup>263</sup> F. William Engdahl A Century of War Anglo-American Oil Politics and The New World Order

<sup>264</sup> John Blair, The Control of Oil, Vintage Books, p. 29

behind the oil discoveries. However, other usages for oil products in the 19<sup>th</sup> century and the ease and the convenience of handling petroleum products gave oil its immense importance throughout the 20<sup>th</sup> century. The invention of the internal combustion engine drastically increased the oil demand and changed the perception of its significance.

The first oil development in the Middle East was in Baku in Azerbaijan on the Caspian Sea, at that time under Russian sovereignty. Its oil extraction and refining were already in full swing by the end of the 19<sup>th</sup> century; its output accounted for almost all Russian production. It was the largest oil producer globally, accounting for over fifty percent of global oil production, surpassing US fields of Pennsylvania and Texas.<sup>265</sup> Although Azerbaijan was under Russian sovereignty, it was the capitalist of the European oil companies that controlled Baku's oil production, refining, and shipping. The famed Swedish Nobel brothers were by then one of the largest oil producers in Baku and were disturbing oil to Russia and Europe by ships and trains. Its logo depicting the fire worshipper's temple of the historical Azerbaijan religion, and its oil fleet were named after the religious and philosophical icons-Mohammad, Zoroaster, Brahma, and Darwin.<sup>266</sup>

The prospect of finding oil deposits in Persia was inspired by the prediction of a French archeologist in 1891. His report became the basis of the oil concession that the Persian Government first attracted and later granted to the British miner William Knox D'Arcy, despite the certainty of the Russian objection. The British government had by 1905 realized the strategic importance of oil. Their Minister to Tehran was ready to intervene

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<sup>265</sup> The Caspian Sea: Politics, Energy and Security Edited by Shirin Akiner, Routledge p5

<sup>266</sup> Brita Asbrink, The Nobels in Baku, Sweden role in Baku first oil boom

with the Persian Government on behalf of D'Arcy; he encouraged the Persian Viziers and Minister to grant the concession to D'Arcy and tempted the influential Persian ministers and key officials with free shares in the company. Fearing Russian objection, the Persian Grand Vizier had to employ a ploy; he sent an informative letter during the summer outage of the Russian officials written in classic handwritten Persian. The difficulty of reading the letter by those who received it, rather than the experts, forced a delay of the Russian response. Russian refusal came too late.<sup>267</sup>

D'Arcy signed a sixty years oil concession in May 1901 with the right to explore for oil and natural gas throughout Persia, except for the Northern provinces that bordered the Caspian Sea and Russia, and the rights to construct a refinery, distribution branches, and the permission to lay the necessary pipeline from inland to a port on the Gulf.<sup>268</sup> The company agreed to pay cash to the Persian government once the venture was formed and would pay 16 percent of the annual net profits to the Persian Government. After three years of failed attempts, hard work, and significant expenses, D'Arcy was ready to fold once his funds dried. The British Burmah Oil Company was persuaded by the British Government, worried of the possibility of losing the whole D'Arcy Company to the Dutch or the Americans, to provide financial assistance in 1905 in lieu of shares in the venture. Three years later, oil was finally struck in Masjid Suliman (or Suliman's Mosque) just as the new financial resources were about to dry out.

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<sup>267</sup> Benjamin Shwadran, *The Middle East, Oil and the Great Powers*, Frederick A. Praeger New York p. 15-19

<sup>268</sup> Benjamin Shwadran, *The Middle East, Oil and the Great Powers*, Frederick A. Praeger New York p. 15-19

The British Admiralty was by then contemplating the transformation of its warships from coal to oil. Admiral Lord Fisher had, since 1882, argued that the British Navy should convert to liquid fuel. The efficiency of burning oil, the ease of handling liquid fuel, and the higher speed that oil provides made the conversion to oil, despite the higher initial cost, imperative. The loading of coal into a battleship required 500 men to work for 5 days, while the workforce is reduced to only 12 men to work for 12 hours to load fuel oil to an equivalent powered battleship.<sup>269</sup> Fisher adopted and convinced the British Cabinet, most notably the first Lord of the Admiralty Winston Churchill, to convert the naval ships to oil firing if Great Britain's maritime supremacy to be maintained. He passionately wrote that "it is a criminal folly to allow another pound of coal on board of a fighting ship." In his speech to the House of Common in July 1913, Churchill announced that "in the year 1909 the first flotilla of oceangoing destroyers wholly dependent upon oil was created, and since then, in each successive year, another flotilla of "oil only" destroyers has been built. There are now built and building more than 100 destroyers- I purposely leave the number rather vague-including coastal destroyers, which are solely dependent upon oil fuel. Similarly, during the last five years, oil has been employed in coal-burning battleships and cruisers to enable them to realize their full powers in an emergency."<sup>270</sup>

However, both Fisher and Churchill realized that their most significant impedance to their naval transformation was the lack of a secure oil supply over a long period. The change was fundamental to the naval policy. The move away from the ample British coal to the obscure foreign oil was risky. Fisher's initial thought was to build a reserve,

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<sup>269</sup> Mohr, Anton, *The Oil War* Harcourt Brace New York 1926

<sup>270</sup> Great Britain, *Parliamentary Debates, Commons*, 5th Ser., vol. 55, cols. 1465-66,

to buy and store fuel, but the British policymakers went much further than Fisher's expected. The urgency of sourcing and securing reliable oil supplies became the impetus and the driving force behind the aggressive British oil policy throughout the first half of the twentieth century.

Fisher's approach was to secure oil supply cheaply during peacetime and with absolute certainty if war broke out and store as much as possible ready to be burned in the British Navy fleet. Churchill had other thoughts. He decided that his government should have direct participation in the oil business, or as he put it in a speech to the House of Commons, "enter the field of the state enterprise"<sup>271</sup> rather than auctioning for the cheapest oil from the three competing oil companies. His policy was to avoid the monopolized control of oil companies; instead, he insisted on owning fuel at the source, at least in proportion with what the British Government required. Churchill convinced his government to purchase 51% of D'Arcy's venture (by then renamed the Anglo Persian Oil Company-APOC) just before the breakout of the war. It eventually grew into the arm of the British Empire oil enterprise, sought oil concession in the British-controlled territories around the Gulf, and was in competition for oil concessions in the Ottoman Empire dominated Mesopotamia.

The mix of enterprise and politics was viewed by some oilmen as unhealthy for the industry; in the words of a Shell Group Director, the two "would certainly convert from what should be mere commercial rivalries into national animosities." His prophecy eventually came true in the politico-commercial turmoil during Iran's Prime Minister Mohammad Mosaddeq's nationalization attempt

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<sup>271</sup> Mr. Churchill speech, July 13<sup>th</sup>, 1913 to the House of Commons

in 1951-1953. In both Tehran and London, oil business and concession rights dangerously overlapped with politics and national pride, leading to the intrigue and violent overthrow of Mosaddeq's legitimate government.

Great Britain was not alone in converting its naval ships to fuel oil; military leaders in the US and Germany were also convinced that the transformation to oil as the primary source of energy was imminent. The German Navy was secretly converting their warships to oil while the British Admiral John Fisher was heading a committee to evaluate the introduction of the more efficient oil firing. Both Britain and Germany's navies had, before the breakout of the war, converted some of their newer fleet to oil, but as in the case of Britain, the Germans were even more desperate to secure adequate fuel oil supplies. The British Government had arranged long-term fuel contracts from Mexico and the Far East and had presumably secured continuous fuel supply for its navy from its majority holding in APOC's Abadan Refinery. In contrast, the Germans were indeed in a dire situation throughout the war.

The British Anglo Parisian Oil Company (APOC) had by 1912 established its oil production in Masjid Suliman, piped through rough and dangerous Bakhtiari tribal lands in southern Persia to its new Refinery in Abadan, the largest in the world at that time. They were marketing the Persian oil, albeit with difficulty because of the sour nature of the Persian crude and the denting US domination of the world market. The new oil company, despite being novice, was ready to explore new opportunities. With the backing of the British Government's political clout, APOC was prepared to expand its business, particularly in the regions under the Colonial Government's sphere of influence.

The British Government was anxious by the early twentieth century to deflect all non-British concession seekers and to limit access to oil fields in the territories under its sphere of influence to British companies. The Foreign Office's fundamental policy in the Middle East was "to exert political influence in territories where oil is known or likely to exist."<sup>272</sup> It issued its oil policy as early as 1904, limiting the granting of any concessions on Crown lands in its colonies to companies under British control.<sup>273</sup> APOC Managing Director Charles Greenway reflected this sentiment more explicitly in October 1912, urging "the importance, on the imperial grounds, the retention of the oil fields in the Persian Gulf region under the exclusive British control."<sup>274</sup> Most of the Rulers and the Sheiks around the Gulf, including Kuwait, "agreed not to give their concessions to anyone other than a person nominated and recommended by the British Government."<sup>275</sup>

Even before the oil finds in Persia, the Ottoman Empire and the other European powers were aware of the potential for commercial quantities of oil in the fields of the Iraqi Vilayets of Mosul and Bagdad. With oil and bituminous material seeping from the ground for centuries, it was in some ways surprising that it took so long to contemplate exploiting the oil in today's Iraq. The oil discovery in Masjid Suleiman unlocked the European oil companies' appetite, heightened their excitement for the possibility of other oil deposits in the region, and

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<sup>272</sup> Robin Winks, *The Oxford History of the British Empire*, Historiography, vol 5 p. 419

<sup>273</sup> B. S. McBeth, *British Oil Policy 1919-1939*, Routledge, p.1

<sup>274</sup> Mr. Greenway to Mr. Maxwell, October 21<sup>st</sup>, 1912 (Persia-confidential Print 44428)

<sup>275</sup> Translation of a letter from Lt-Col Sir Percy Cox to Sheik Mubarak Al Subah, Ruler of Kuwait, October 27<sup>th</sup>, 1913 (R/15/5/236)



incited fierce competition in the pre-war time between the Powers themselves. Four oil groups of different nationalities were competing for oil concessions from the Young Turks' Government in the territories of Mesopotamia and Anatolia. The German Deutsche Bank through their interest in the Anatolian Rail, the Dutch Royal Dutch-Shell with the assistance of the celebrated businessman Calouste Gulbenkian, the British Anglo Persian Oil already involved with the Turkish Government even before 1908, and Chester Group, the first American enterprise in the region were all out to secure a concession in the territories of the Ottoman Empire.

Ostensibly, the race was between oil companies, but in fact, it was the Imperial governments of Britain and Germany that were coercing the Turkish and the local governments for favorable concessions. Even with apparent differences and eventual enmity, the European oil companies were able to unite in their venture for an oil concession from the Turkish Government and managed to keep the Americans at bay.<sup>276</sup> In March 1914, only months away from the break of the Great War, the diverse European oil companies concluded and signed an agreement to form the Turkish Petroleum Company (TPC). The new company was founded and organized by Gulbenkian, co-signed in the British Foreign Office by representatives of the British and the German Governments. APOC dominated the new concession with almost half of the shares and the other half equally split between the Dutch Shell and the German Deutsche Bank.

Oil was in abundance at the breakout of the Great War, but its potential need and usage, though in its infancy, was accelerating. War mechanization and the hard lessons of World War One brought the importance of oil to the

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<sup>276</sup> Benjamin Shwadran, *The Middle East, Oil and the Great Powers*, Frederick A. Praeger New York p. 195

forefront. On the eve of the breakout of the war in August 1914, fuel oil rather than coal powered the navy ship of Britain, Germany, and the US, and tanks and Lorries had replaced horses and carriages for the first time in a European war. It became evident that many new technologies, including fighter planes and mechanical warfare introduced during the war, were powered by oil. The warring parties felt the profound impact of oil; oil shortage put the German war machine both in the sea and land at a grave disadvantage, while the security of the Persian oil and the sustain running of the Abadan refinery provided the British Navy with the fuel and the leverage they needed to endure. The uninterrupted US supply of oil to Europe satisfied Britain's domestic needs and other European allies, outlasting the Germans for the final victory. The Allies realized the role of petroleum products in winning the war; Lord Curzon expressed the European sentiment in November 1918 as the war was coming to an end, "the Allies floated to victory on a wave of oil." The realization of the indispensable need for oil during future conflicts became part of the European national security mindset.

The strong appetite for oil in the post-war era was energized by the economic expansion and the enormous growth of the car population. Many experts in the US Government were alarmed by the rapid depletion of the American fields and possible scarcity of oil in the US. The Director of the US Geological Survey, predicting doomsday for the United States' oil field, characterize the situation in 1920 as "precarious."<sup>277</sup> The fear or perhaps the myth of the self-serving decline of US production<sup>278</sup>

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<sup>277</sup>The International Petroleum Cartel, Staff Report to the Federal Trade Commission submitted to the Subcommittee on Monopoly of the Select Committee on Small Business, United States Senate, August 22<sup>nd</sup>, 1952, p.39

<sup>278</sup>George Nowell, *Mercantile States and the oil world cartel*

had many experts calling for the reduction in oil consumption and the increase in oil imports. The US State Department had other thoughts; it instigated the US oil companies to develop oil resources outside the US. Under the pretext of depletion of the US oil fields, the American oil companies made their move into the Middle East rivalry despite European resentment and resistance,<sup>279</sup> led by the prevalent influence of Great Britain.

In the meantime, the British were set to free itself from its dependency on the United States for its domestic needs and its Navy fleet. Its oil policy was driven by the security of supply and had gone to a great length in safeguarding exclusive control over concession rights from the Gulf States' Rulers. The British policy was, as noted by the French oil Expert Henry Berenger in a memorandum addressed to the post-war French Prime Minister Georges Clemenceau, "in Asia Minor, and from the Caucasus to India, in Persia and Mesopotamia, had not been formed or pursued as purely territorial policy, but essentially as a petroleum policy."<sup>280</sup>

Much of the rivalry between the victors, once the war was settled, was determined by the urgency to control the oil fields of the Middle East. The peace conferences after WW1, in Paris and Lausanne, were not only to establish peace on the European Continent but to settle the rivalry between Great Britain, the US, and France for control of oil. The Arab provinces, under the authority of the Ottoman Empire, present-day Iraq and Syria, became the booty of the war, eventually divided between the victors based on the expectation of oil discoveries. Britain kept Mosul despite Turkey's sovereignty claims and the French insistence that Mosul was part of the French zone under

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1900-1930, Cornell University Press, p 79

<sup>279</sup>John Blair, *The Control of Oil*, Vintage Books, p. 32

<sup>280</sup>Benjamin Shwadran, *The Middle East, Oil and the Great Powers*, Frederick A. Praeger New York p. 32

the Sykes-Picot agreement. Even during their infighting in the peace conferences, Europeans were resolved in keeping the US out, justified on their historical involvement in the Middle East, and the disparity between the large oil reserves and production of the American's major oil companies compared to the limited access available for their European counterparts. US oil companies were by 1921 controlling over 80% of the oil produced worldwide, albeit mainly in the US and South America, leaving Europeans in a desperate situation.

The American oil companies rich with domestic production and local refineries were indifferent to the temptations of exploring foreign oil during the years preceding the armistice in 1918. However, their isolationist policy was soon reversed, encouraged by the State Department, despite fierce resistance by the Europeans. The need for long-term oil security and the residual fear of oil shortage influenced the relationship between the powers on the two sides of the Atlantic for years to come. The Americans were frustrated by the imperial policies of the European powers and the binding agreements between the Sheiks of the Gulf and Great Britain that could limit their entry. They viewed the European resistance to their entry as a continuation of the colonial policies of Great Britain.<sup>281</sup> As described by an oil expert in 1919, the British position in the Eastern hemisphere was "impregnable; all known oil fields outside the United States are in British hands or under British management or control or financed by the British capital."<sup>282</sup> European resistance was understandable; the domination of the US companies' of the global oil markets

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<sup>281</sup>John Blair, *The Control of Oil*, Vintage Books, p. 32

<sup>282</sup>The International Petroleum Cartel, Staff Report to the Federal Trade Commission submitted to the Subcommittee on Monopoly of the Select Committee on Small Business, United States Senate, August 22<sup>nd</sup>, 1952, p.41

was problematic for the British and other Europeans and a threat to their independence. From the British perspective, it was most imperative to have their own perpetual and independent source of oil, so vital to their future war planning.

The realization of the indispensability of oil, both as war imperative and to sustain industrial growth, and the expectation of the discovery of large quantities of oil brought the sleepy land of the Middle East from its political backwater under the Turkish dominance to the forefront of political and economic relevancy and shaped the British, French, and American Middle East strategies after World War One. Oil was present during the ensuing Peace Conferences and immensely influenced the appropriating of the ex-Ottoman territories to the victors. Control of oil became part of British policy as demanded in the Admiralty letter to the Foreign Office that "Great Britain should control the territories on which oil is situated,"<sup>283</sup> and had since attempted to retain their sphere of influence over oil fields with remarkable tenacity. APOC, partly owned by the British Government, held the only active Middle Eastern concession in Persia and was determined to monopolize or continue to dominate oil ventures around the Gulf. With one foot in Persia, APOC was resolved to take full advantage of Mesopotamian oil through their ownership in the Turkish Petroleum Company (TPC).

The political and territorial spoils were settled in the multiple peace conferences. The British and the French succeeded in excluding their allies: the Italians, the Americans, and the Russians from the spoils of the Ottoman Empire in the Middle East. At San Remo Conference in April 1920, the two victors concluded a

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<sup>283</sup> The Oxford History of British Empire-Vol. 5, By Robin Wink, Alain Low, Oxford University Press p. 420

secret deal to keep the Americans out and monopolize the future of the Middle East oil.<sup>284</sup> The settlement reached by the Prime Ministers of the two countries Lloyd George and Alexander Millerand, gave France 25 percent share of the untapped oil reserve of Mosel's, while the British APOC and Shell controlled the remaining 75 percent. Evidently, the agreement was prepared by Sir Henry Deterding, Chairman of Royal Dutch Shell, and John Cadman, the future Chairman of APOC. The British justified their entitlement; they insisted on their demand for pole position since they had sacrificed a quarter million of their and Indian soldiers killed or wounded in the Middle East, while the French had suffered practically no casualties, and the Americans had not been there at all.<sup>285</sup>

The exclusion of Standard Oil and other American companies from Iraq and the Arab territories surrounding the Gulf was soon reversed under pressure exerted by the US States Department through the newly adopted "Open-Door Policy." The realization of the enormity of the oil fields of Mosul and the need for funds from US banks eased the initial entry of the American oil companies in the concession of Iraq as a partner in the Turkish Petroleum Company (TPC), transforming the company into an international consortium.

An American syndicate, the "Near East Development Cooperation," that included Standard of New Jersey (later Exxon), Socony (later Mobil), Gulf Oil, Atlantic Richfield, and Pan-American Petroleum, ultimately joined

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<sup>284</sup> David Fromkin, *A peace to End All Peace, The Fall of the Ottoman Empire and the Creation of the Modern Middle East*, A holt Paperback Henry Holt and Company p. 534

<sup>285</sup> Cited David Fromkin, *A peace to End All Peace, The Fall of the Ottoman Empire and the Creation of the Modern Middle East*, A holt Paperback Henry Holt and Company p. 385, in reference to Lord Beaverbrook, *Politicians and the War 1914-1916* p. 172).

the TPC partners after a protracted negotiation that extended over six years period. The new partnership was finally formed in July 1928, after the oil was struck in Baba Gurgur in the Province of Mosul, with 23.75% each for the British Anglo Persian Oil Company (APOC), Shell, CFP, and the combined American Group, while Gulbenkian, the orchestrator of the deal, retain his 5%. The company's name was eventually changed to Iraq Petroleum Company (IPC) in 1929.

Even before its final reward, Iraq's concession was politicized and had influenced the demarcation of Iraq's northern borders after World War One with Turkey. Mosul became part of the Iraqi territory despite Turkish resistance and French objection. Although Northern Iraq was defined to be under the French sphere of influence in the 1916 Skye-Picot agreement, the British kept the province of Mosul as part of Iraq and under their mandate in exchange for the French share in TPC.

The Americans had their concerns; the tremendous increase in the automobiles on the American roads promoted the oil industry to predict the depletion of its domestic oil. The number of cars and trucks registered in the United States had increased from a mere 8000 in 1900 to 8.5 million twenty years later. Though supply deficiency soon proved fictitious, the American oil companies were, nonetheless, set to explore international soils. The American lawmakers persisted in their attempt to break the European resistance to their entry and adopt the Open-Door policy that included the all-important provision that "nationals of all nations be subject in all mandated territories to equal treatment."<sup>286</sup> US State Department argued that the war was won by all allies fighting together

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<sup>286</sup> John Blair, *The Control of Oil*, Vintage Books, p. 32

and therefore the benefits should be available to all the Allied Powers.<sup>287</sup>

It was not only the victors who were anxious to put their hands on the Mosul's oil; Turkey was equally keen. They were aware of the oil potential in the land surrounding Kirkuk and were not ready to surrender north of Iraq to its weaker neighbor. Turkey objected to Iraq's claim of sovereignty over the Province of Mosul, but in June 1926, the Treaty of Ankara was signed between the United Kingdom, Turkey, and Iraq, in which all parties agreed that the province of Mosul belonged to Iraq. The British, in their earlier negotiation with the Iraqis, had tied their consent to settle the Mosul question in favor of Iraq to Bagdad's acceptance of TPC's proposed terms of the concession. The concession terms were far from what was initially presented in the peace conferences; it no longer offered the Iraqis a share in the company as was initially intended. Nonetheless, after long deliberation in the parliament, the Iraqi Government, perhaps with considerable savviness, accepted the terms of concessions. It was a case of accepting an inferior concession or the perpetual loss of the country's northern territory.<sup>288</sup>

The 75 years concession was granted in 1925 by the Iraqi Government to TPC was based on a flat royalty rate, paid in British Pounds, and backed by gold. Despite Iraqi objection and the terms of the San Remo agreement that allowed the Iraqi Government to own 20 percent of the company, TPC partners successfully blocked Iraq's equity participation in the venture. Although oil was struck in October 1927 in the old province of Mosul, field

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<sup>287</sup>The International Petroleum Cartel, Staff Report to the Federal Trade Commission submitted to the Subcommittee on Monopoly of the Select Committee on Small Business, United States Senate, August 22<sup>nd</sup>, 1952, p.51

<sup>288</sup> Dr. Maamoun Zaki, Iraq's Prosperity under Monarchy 1921-1958 (Arabic), p.95-96



development and production were, to the dismay of the Iraqi Government, deliberately slowed as a result of a severe glut in the oil market and the impending global recession.

The new transatlantic partnership that formed TPC had a broader ambition beyond Iraq; they soon concluded an agreement that allowed the group to bid for any concession as a unit in a defined area of the Arabian Peninsula drawn by the red pen of Gulbenkian, in what comfortably became known as the "Red Line Agreement." Dissent was not to be tolerated.

TPC was ready to compete for new concessions in the ex-Ottoman Empire's land and the Arabian Peninsula once oil was found in Northern Iraq. The Red Line or the Group agreement was engineered by Mr. Gulbenkian and signed in Ostend Belgium during the summer of 1928 between all the companies that made up the Turkish Petroleum Company (TPC). The agreement formalized the relationship between the partners to develop oilfields in the land between Suez Canal and the Gulf, except for Kuwait, Iran, and Trans-Jordan. It was designed to preclude any future rivalry between the owners<sup>289</sup> and disallow any partners to acquire separate concessions. The agreement retained the original 1914 "self-denying" clause outlined in the Foreign Office Agreement between the pre-war partners. It stated that TPC partners "would not be interested directly or indirectly in production or manufacture of crude oil in the Ottoman Empire .... otherwise, than through the Turkish Petroleum Company."<sup>290</sup>

Although the aim and the policy of TPC was to avoid competition between its members for new concessions in the territories of the Old Ottoman Empire, it failed to stop

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<sup>289</sup> John Blair, *The Control of Oil*, Vintage Books, p. 31

<sup>290</sup> Multinational Corporations and United States Foreign Policy hearings 93 congress vol 6 part 7-9

other companies from acquiring concessions in the defined regions. The non-member American Standard Oil of California (SoCal) secured a concession in Bahrain in 1928 and in 1933 outbid TPC for the all-important concession in Hasa, Saudi Arabia. The suppression of competition for new concessions between the participating companies eventually became the source of constraints and disagreements. It was finally abolished after the Second World War by American companies.

### **The First Oil Collective Agreement**

The major oil companies were keen to monopolize the market and managed prices once they secured oil concessions and controlled production. It was as precisely predicted by Winston Churchill in the years before World War One; he described the oil companies' policy as acquiring "control of the sources and means of supply, and then to regulate the production and market price."<sup>291</sup> Despite their fierce rivalry for market outlets, the oil companies were more inclined to agreements and control arrangements even at times of market oversupply.<sup>292</sup> The price war was already prevalent in India's Kerosene market between Shell and Standard Oil of New York and was spreading fast to the US and Great Britain markets. However, the oil companies were resolute to conclude an agreement that would eventually control overproduction, regulate product markets and avoid price-cutting to turn into cutthroat.

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<sup>291</sup>Anthony Sampson, *The Seven Sisters, The Great Oil Companies and the World they Made*, p. 69

<sup>292</sup>The International Petroleum Cartel, Staff Report to the Federal Trade Commission submitted to the Subcommittee on Monopoly of the Select Committee on Small Business, United States Senate, August 22<sup>nd</sup>, 1952, p.5

Three powerful chairmen of the biggest oil companies met in a castle in the beautiful Scottish Highlands in September 1928 not only for grouse shooting but to conclude an agreement to control production and markets and administer the vertical chain from the oil wells to the consumer homes and cars. They warned that "excessive competition had resulted in tremendous overproduction, as each company has tried to take care of its own overproduction and tries to increase its sales at the expense of someone else."

The first international oil agreement was reached in Achnacarry Castle in Scotland between the Chairmen of APOC's John Cadman, Royal Dutch Shell's Henri Deterding, and Standard Oil of New Jersey's Walter Teagle. The outcome "principle of the Achnacarry" agreement and supplementary "As is Agreements of 1928", though it was never signed for fear of the US anti-trust laws, consolidated their hold of the world oil by eliminating competition among themselves, preventing overproduction by preserving the status quo of market position in each area and maintained price consistency throughout the globe. The three chairmen agreed to control production through joint use of existing facilities, restrained from building new production facilities in any area only if and when needed and shut excess existing supply if necessary.<sup>293</sup>

They fortified their hold by supplementary agreements to administer the local ventures based on the general principle. They closed the door to any other oil company to enter their dominated market unless through price war, acquisition, or bilateral agreement with those that already had established market position. The new arrangement

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<sup>293</sup>The International Petroleum Cartel, Staff Report to the Federal Trade Commission submitted to the Subcommittee on Monopoly of the Select Committee on Small Business, United States Senate, August 22<sup>nd</sup>, 1952, p. 133

was eventually expanded to include other oil companies, Gulf, Mobil, Texaco, and Atlantic, to form along with APOC, Shell, and Exxon, the powerful Seven Sisters. The new arrangement resulted in an intricate web of interlocking relationships intended to control individual markets with assigned quotes, fixed prices on the local level, and allowed competition for market share only at the expense of those not part of the agreements.<sup>294</sup> Dissent on the local level, especially on prices, was not tolerated except to counter price war by an independent. Relationship with the independent oil companies, with practically no production of their own, was in general regulated through conditional supplies to their refineries and their market outlets.

They applied multiple approaches to control both ends of the supply chain and all that came in between; they managed production, transportation, refining, and marketing to the end consumer through the neighborhood pump stations. Their business extended to all facets of the oil industry through vertical integration, unprecedented by any other industry. They held a stunning 92% of global oil reserve outside the US and Russia, more than 40 billion barrels in 1949, through individual concessions and joint ownerships, and were producing more than half of all global oil, or 88% when the US and Russia were excluded.<sup>295</sup>

Production and supply were regulated through joint ownership of the various concessions and instituting an intra-transfer of crude and product in different markets. They pooled transportation facilities transferring oil from their production facilities by a web of pipelines and by the

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<sup>294</sup> John Blair, *The Control of Oil*, Vintage Books, p. 57

<sup>295</sup> The International Petroleum Cartel, Staff Report to the Federal Trade Commission submitted to the Subcommittee on Monopoly of the Select Committee on Small Business, United States Senate, August 22<sup>nd</sup>, 1952, p. 23

tanker fleets they owned, which by 1948 amounted to 12.4 million tons of deadweight, or two-third of total privately-owned fleets.<sup>296</sup> They instituted regulation for the exchange of supply and freight rates, but the most conspicuous sign of their domination in the public's eyes was in their monopoly of the market and their perpetual drive to limit the entry of any non-members to their markets outside the United States. In accordance with a subcommittee of the US Senate, their hold had become "so vast as to invite its abuse."<sup>297</sup> Enrico Matti, the Chairman of the Italian ENI, admitted that their grasp was "almost impossible to crack."

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<sup>296</sup>The International Petroleum Cartel, Staff Report to the Federal Trade Commission submitted to the Subcommittee on Monopoly of the Select Committee on Small Business, United States Senate, August 22<sup>nd</sup>, 1952, p. 26-27

<sup>297</sup>The International Petroleum Cartel, Staff Report to the Federal Trade Commission United States Senate, August 22<sup>nd</sup>, 1952, preface.

## **6 Despair and Hope**

The death of Sheik Salam in February 1921 brought an end to the conflicts and wars the country experienced throughout his rule, with many fatalities and financial losses spoiled by his enemies. In line with the country's succession tradition, Sheik Ahmad Al Jaber (1921-1950), a more amicable and tolerant ruler, friendly to Amir of Najd and loyal to the British Crown, was declared the new Amir of Kuwait.

The new ruler was on a peace mission to Najd to mend the strenuous relationship with Amir Abdul Aziz (later King of Saudi Arabia) when he was notified of the death of the reigning Sheik. He was also informed by the merchants' community on his return that they would no longer accept another absolute ruler.

The sudden death of Sheik Salam and the ascending of Sheik Ahmad Al Jaber was an opportunity for the merchants to assert their political influence or at least share in governing the state. Tired of conflicts first with the British in the dying days of the Great War and later with Kuwait's neighbors, the merchant community petitioned the new Sheik to establish a consultative council (Majlis Al-Istishari) from members of the ruling family and selective merchants as a precondition for the people to pledge their allegiance and recognize his

accession to power as their new ruler. They were adamant, as noted by the Political Agent, "to have a say in the internal affairs in the future and would not accept being driven into wars against their will as they have been in the past."<sup>298</sup>

The Sheik accepted the petition and appointed twelve members' Council exclusively from the pearling and trading families from both sides of the town. He agreed to "take advice from the council on all matters internal and external, which affect the town" and rationalize the country's judicial structure by introducing an appeal and arbitration courts, though rudimentary, in settling all disputed cases.<sup>299</sup>

Despite the merchant's economic strength and political influence that gave them unhindered access to power,<sup>300</sup> they were sidelined by Sheik Mubarak. The financial and economic contribution of the elite through import duties, pearl taxes, and loans had sustained the Sheiks, financed his wars, and provided employment to the desperate inhabitant of the town. Their appeal for a council was, to a certain extent, an attempt to regain their political strength and bring back a balance in managing their affairs and influence public life.

The council soon broke down; lack of experience, the uneasy relationship between the members, and self-interest turned the Council meetings into a contentious affair. The formation and the abrupt dissolution of the Council was not much of a concern to the general population. Their apathy toward the elitist Council was

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<sup>298</sup> Telegram from Political Agent, Kuwait to High Commissioner, Bagdad, February 24<sup>th</sup>, 1921 (R/15/1/513)

<sup>299</sup> Telegram from Political Agent, Kuwait to High Commissioner, Bagdad, April 1<sup>st</sup>, 1921 (R/15/1/513)

<sup>300</sup> Helem Chapin Metz, ed. *Persian Gulf States: A Country Study*. Washington: GPO for the Library of Congress, 1993. Kuwait/ the economy

understandable; not only were they politically marginalized, but the wealth and the prosperity of the merchants and the ruling family did not improve their lives. Despite the failure, the first formal and orderly Council remained a landmark in the aspiration for a shared government and perhaps the first step in the road to the elected democracy. Sheik's pledge became the new threshold for future popular involvement in governing the country and the basis of the demand for an elected council in 1938.

### **The Conference of Uqair: Defining Borders**

The demise of the Ottoman Empire's influence and the evolving situation post World War One render the situation in Northern Arabian Peninsula highly elusive. The emerging of the new Kingdom of Iraq from the flattering Ottoman Empire presented the British High Commissioner in Bagdad and the Government of India with the difficult challenge of governing the people of Iraq and the urgent need to demark the complex frontier of the new country, surrounded by Persia, Syria, Turkey, Najd, and Kuwait. Sultan Abdul Aziz had meanwhile laid siege and, in November 1921, seized the city of Hail, the stronghold of the Shammer tribe, expanding his reign to the evasive borders between Hejaz and Iraq.

The urgency to secure King Feisal's government in the new Kingdom of Iraq and to settle claims made by all sides on the extent of their rights and the limits of their territories compelled the new High Commissioner of Iraq, Sir Percy Cox, to fix the borders of Iraq with her neighbors once and for all. Except for Iraq's border with Persia set in 1847 in the Treaty of Erzurum between the Ottoman Empire and Persia, Iraq's borders with Najd and Kuwait in the absence of natural barriers were characterized by



control over water wells, tribal affiliations, and shifting loyalties and allegiances to the various rulers. Despite the political progress, the local rulers, including the new King of Iraq and the influential Sultan of Najd, relied on the "Law of the desert," apprehensive of the physical boundaries and borders. They were all veterans of manipulations of tribal control to enhance their power. Their views contradicted the British policy concluded in the Cairo Convention that foresaw the need for borders demarcation in the territories controlled or mandated by the British Government. Though the local rulers were unwilling to abandon their influence, the British Government eventually coerced them into accepting the concept of well-defined boundaries for fear of the "tribal claims might ultimately develop into a territorial one."<sup>301</sup>

Cox understood the difficulties of convincing the rulers to demark desert borders; new and explicit frontiers were bound to limit the natural movement of the Bedouin tribes rooted in their livelihood since eternity and destined to change allegiances and loyalties of the desert population. Nonetheless, Cox was resolved to end all conflicts between the neighbors and conclude an agreement that would define the borders of the new Kingdom of Iraq, end the perpetual disturbance and desert raids, and ease the hardship of Iraq's population.

He wrote to Sultan Abdul Aziz in early 1922, suggesting the introduction of borders in line with the "existing of predominant and prescriptive rights to the use of certain watering places possessed by tribes owning allegiance to one state or another."<sup>302</sup> Delegate from Sultan Abdul Aziz

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<sup>301</sup> Political Agent, Kuwait to CCB, June 13<sup>th</sup>, 1920, IOLR, L/P&S/10/973, p.1805, cited in Uriel Dann, *The Great Powers in the ME, 1919-1939* p31

<sup>302</sup> Sir Percy Cox to Political Resident, Bahrain, January 25<sup>th</sup>, 1922, IOLR, L/P&S/10/973, p.1805, cited in Uriel Dann, *The Great Powers in the ME, 1919-1939* p.32

met with representatives of King Feisal of Iraq in a conference in the city of Muhammara. They drafted a treaty that, although it did not conclude clear boundaries between Najd and Iraq, the two sides managed to reach consent that defined tribal affiliation. The proposed pact was never ratified by Najd or Iraq, but it vaguely defined their territorial extent and lay the groundwork for the rulers to subscribe to the new principle of fixed borders.<sup>303</sup>

Despite the setback, Cox was adamant in his pursuit to outline agreed borders between the three adjusting countries: Najd, Iraq, and Kuwait, which would put an end to any uncertainty and confusion that could erupt into armed conflicts. Perhaps the possibility of oil discoveries and the urgency to define concession limits added to the criticality of clear borders. The Anglo Persian Oil Company (APOC) was already in pursuit of an oil concession in Iraq after the defeat of the Ottoman Empire in 1918 and had requested the British Government to extend Iraq's oil concession to include Kuwait.<sup>304</sup> Despite lack of progress, the British authorities became keenly aware of the necessity for orderly borders to manage the potential oil discoveries and avoid possible political and legal complications between the oil companies once concession agreements were concluded.

Cox eventually convinced Sultan Abdul Aziz of the imperativeness for an agreement that defined boundaries compatible with the 20<sup>th</sup>-century world view. Despite foot-dragging, it was no longer conceivable for the countries in the region to endure with shifting borders dictated by the tribal movement. Cox, in his dual role as the representative of the British Government in the Gulf and the High Commissioner in Iraq, presided over the Uqair

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<sup>303</sup> Uriel Dann, *The Great Powers in the ME, 1919-1939* p.32

<sup>304</sup> Archibald Chisholm, *The First Kuwait Oil Concession Agreement, A Record of the Negotiation 1911-1934* Introduction p. xi, Frank Cass, London

Conference in the winter of 1922 in the coastal town located in the Eastern province of Hasa ruled by Sultan Abdul Aziz. Najd was represented by King Abdul Aziz himself, Iraq by Percy Cox, and the Minister of Transportation, Mr. Sabhi Nashat Pasha. In contrast, Kuwait was curiously represented by the British Political Agent, Major James More, rather than the Amir of Kuwait or his deputy.

Hussain Khazel vividly described the meeting and the exchanges between the delegate of Najd and Iraq in his book, "The Political History of Kuwait." He wrote, "The meeting was typical of the haggling between Eastern representatives when delegates meet to settle political issues." It was not a "negotiation in the sense of the word, but more of bizarre demands and counter demands."<sup>305</sup>

Although Cox had promised to mediate the border conflict between Kuwait and Najd after the Jahra war two years earlier, the focus of both conferences in Muhmmara and Uqair was the border between Najd with Iraq. Cox was keen to strengthen the new government in Iraq and appease its population. Discussion of Kuwait's border was perhaps a peripheral concern that needed to be resolved as part of an overall settlement. Kuwait's absence from the Muhmmara conference and unjustly represented by the Political Agent in Kuwait rather than by the Sheik or his designated representative proved futile and disastrous. Major More's defense of Kuwait's borders or his contribution was virtually nonexistent. Whether it was the Sheik desire and his plans to be represented by the British Political Agent in Kuwait, or despite his will, his conspicuous absence severely backfired. Equally, whether Major J C More's absence-presence was in accordance with the 1899 Treaty that barred Kuwait from

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<sup>305</sup> Hussain Khalaf Sheik Khazel, *The Political History of Kuwait* (Arabic), v5, p.136

international dealings or premeditated plan was never disclosed or discussed.

After five grueling days, the delegates failed in their attempts to reach an agreement to settle their physical borders. Realizing the futility of further discussion, Cox decided that it was left to him to single-handedly draw the frontiers of Iraq, Najd, and Kuwait. He drew a line across the map of Northern Arabia, from the Gulf to the Jordanian borders, defining the boundaries of Iraq with Najd and Kuwait and created two awkward Neutral Zones, between Najd and Iraq, and between Najd and Kuwait. Cox described the two Zones "as a territory in which both countries shared equal rights and justified on the life and the needs of the roaming Bedouins, but also the potential of oil discovery, as he put it "to secure both countries equal share of oil."<sup>306</sup>

He "awarded large pieces of territory claimed by Najd to Iraq and compensated two-third of Kuwait territory to Najd."<sup>307</sup> Kuwait's border with Najd was shifted northward by 150 miles along the Gulf shores than that of the pre-war Anglo-Turkish Convention of 1913;<sup>308</sup> however, its border with its northern neighbor of the Kingdom of Iraq stayed virtually as was drawn in the 1913 Anglo-Turkish Convention (Appendix 6). In a letter on April 19<sup>th</sup>, 1923, the Political Resident confirmed Kuwait's border with Iraq; he noted that his Majesty Government recognizes the Kuwait-Iraq frontier and islands claimed by the Sheik of Kuwait to be identical to the green line of the Anglo-Turkish Convention of 1913; explicitly included the

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<sup>306</sup> Hussain Khalaf Sheik Khazel, *The Political History of Kuwait* (Arabic), v5, p.141

<sup>307</sup> Hussain Khalaf Sheik Khazel, *The Political History of Kuwait* (Arabic), v5, p.140-141

<sup>308</sup> H. R. P. Dickson, *Kuwait and Her Neighbors*, p.285-287

northern islands of Warba and Bubiyan appertain to Kuwait.<sup>309</sup>

Cox justified his action to award a large part of Kuwait on the demise of Kuwait's desert influence from the days of the Anglo-Turkish Treaty. The loss of his territories angered and frustrated the Sheik with the British for many years to come. It left him with a lifetime scar<sup>310</sup> and perhaps influenced his approach to the prolonged negotiation for Kuwait's oil concession.

Though oil was present during the conference, its importance for the British was still more of a war imperative. However, the realization that unless clear borders were well defined, oil concessions granted by various rulers and territories would incite conflict between the states and business litigations between the oil companies. Significantly, oil did not escape Sultan Abdul Aziz's notice; the conspicuous presence of the oilman, Major Holms, at the Sultan's invitation only accentuated the Sultan's awareness of the coming of oil.

The conclusion of Al Uqair conference in December 1922 ended the historical free movement of the nomads, and it was in many ways the end of their nomadic way of life and the beginning of their urbanization.<sup>311</sup> Government authorities forbade the nomadic border crossing and outlawed the traditional raids on the other tribes and territories, depriving the tribal population of the opportunity for winning booties. Though most of the tribes were discontented with the imminent urbanization, the Ikhwan were willing to take things into their own hands and persist in their old ways. They continued to intrude into Kuwait and southern Iraq in 1924 -1925 and

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<sup>309</sup> Letter from Sir Percy Cox, The Residency, Bagdad to the Political Agent, Kuwait dated April 19<sup>th</sup>, 1923 (FO 371/8952; R/15/1/523)

<sup>310</sup> H. R. P. Dickson, *Kuwait and Her Neighbors*, p.288

<sup>311</sup> Uriel Dann, *The Great Powers in the ME, 1919-1939* p.35

with more vigor, intensity, and frequency in the winter of 1928.<sup>312</sup> Kuwait's nominal army succeeded in its resistance, but once again, it needed the assistance of the British Royal Air Force. The Air Force described the action in their Resume of operation for January 1928:

"The raiders estimated at 200 to 300 strong attacked Kuwait's tribesmen at Shiqqat Ar Ru Aisat and looted their livestock. Kuwaiti tribesmen put up a stout fight, losing some men, and inflicted some causality on the raiders. A Kuwaiti force in commandeered cars was sent out and intercepted the raiders, inflicting further casualties and recovering much of the loot. A day later, a formation of three British aircraft located a party of raiders northeast of Al Hafar; action was taken scattering the raiders and inflicted casualties."<sup>313</sup>

Despite the repulsion of the attackers, the invading tribesmen fresh attempts in the winter of 1928 to raid the town were encountered by the Royal Air Force. The Sheik strengthened the wall around the city with more guards, and British troops and armored vehicles were brought in from the warship in late March, supported by heavy gunfire from the warship itself<sup>314</sup> in case the raiders managed to break through the gated wall.<sup>315</sup> The British had even prepared an evacuation plan of British and American subjects from Kuwait to nearby the island of Falika<sup>316</sup> if the situation deteriorated.

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<sup>312</sup> Uriel Dann, *The Great Powers in the ME, 1919-1939* p.55

<sup>313</sup> Resume of operations prepared by Flight-Lieutenant L. H. Cockey, Air Headquarters, Bagdad, February 18<sup>th</sup>, 1928 (Air 5/1291)

<sup>314</sup> Telegram from Political Agent, Kuwait to Chapelries, London, March 10<sup>th</sup>, 1928 (R/15/5/39)

<sup>315</sup> Report of landing facilities, camping sites and water at Kuwait (R/15/5/39)

<sup>316</sup> Memorandum on Evacuation of British and American subjects at Kuwait prepared by Captain Franklin HMS Emerald, February 28<sup>th</sup>, 1928 (R/15/5/39)

Warming of the weather and the realization of the presence of the deterrent forces, the Ikhwan's raiders refrained from attacking the town. The situation was finally eased with the coming of the summer season and the scarcity of water, rendering the renewal of raids more improbable. The British withdrew their small force by the end of May 1928, once the fear of further trouble dissipated.<sup>317</sup>

The Sheik blamed his inability to defend Kuwait squarely on Percy Cox as he expressed his frustration in the summer of 1929 to the Political Agent: "We have not sufficient force or strength to defend ourselves from those continuous attacks, seeing that our tribes and defenders were taken away from us when Sir Percy Cox reduced the territories and boundaries of Kuwait, how could they (the tribes) stay with us seeing that they no longer had sufficient room to graze their camels and flocks, with the constant fear of being attacked. Had the territories of Kuwait today been as before and our tribes been with us, we should not have importuned His Majesty's Government but would have defended our own borders."<sup>318</sup>

### **Years of Economic Hardship**

Conflict over taxes between Kuwait and Najd was brewing since 1916. The Amir of Najd had requested the British Government's interference to advise the Sheik of Kuwait not to charge customs on the consignments that arrive there for Najd or fees on any transshipment goods

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<sup>317</sup>Memorandum by Political Agent, Kuwait on protection of Kuwait, submitted to Political Resident, Bushire, May 24<sup>th</sup>, 1928 (R/15/5/40)

<sup>318</sup>Translation of letter from Sheik Ahmad, Ruler of Kuwait to Political AGENT, Kuwait enclosing statement regarding raids on Kuwait and proposal for ending them August 3<sup>rd</sup>, 1929 (R/15/5/32)

destined for Najd.<sup>319</sup> Sheik Jaber, the ruler at that time, argued that goods arriving in Kuwait “do not bear the final destination but are clearly addressed to Kuwait merchants; therefore, it is impossible to make any changes in the usual customs duty.”<sup>320</sup>

The end of the war and the lifting of the British blockade imposed on Kuwait's ports in the dying days of the Great War, the peace with Sultan Abdul Aziz after the Jahra war and Sheik Ahmad pact with the influential merchants brought back trading activities, resurrected Kuwait's marketplace and reinvigorating its economy. However, no sooner that a sense of normality and the anticipation of prosperity grew, Najd declared an embargo on the transit trade with Kuwait. Najd ordered in winter of 1923 the closure of all transit activities from Kuwait to the interior of Arabia and prohibited his citizens from trading with Kuwait. His reason was his inability to collect his customs dues on goods imported from Kuwait,<sup>321</sup> but the more likely reason was to encourage his citizens to use Hasa's ports.

Importation of essential goods (rice, tea, and sugar) into Kuwait for local consumption and transit to Iraq and the nearby regions had by 1929 dropped drastically and had threatened the prosperity and livelihood of Kuwait's population. The Sheik complained to the Political Agent in summer 1929 that Najd's embargo had reduced his transit revenue by more than 70%.<sup>322</sup> Still, as noted by the Political Resident in 1928, it did not create the expected

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<sup>319</sup>Chief Political Officer, Basra to Political Agent, Kuwait, June 26<sup>th</sup>, 1916 (R/15/5/25)

<sup>320</sup>Ruler of Kuwait to Political Agent, Kuwait (translated), July 15<sup>th</sup>, 1916 (R/15/5/25)

<sup>321</sup>Note on the Principality of Kuwait prepared for the Political Resident, Bushire by Major James More, Political Agent, Kuwait, 1927 (CO732/33/10)

<sup>322</sup> Translation of a letter from Ruler of Kuwait to the Political Agent, August 3<sup>rd</sup>, 1929 (R/15/5/32)



stagnation.<sup>323</sup> Perhaps the long-haul trade between India and Africa and broad smuggling activates mostly gold to India and transiting goods to the neighboring countries kept the economy intact, but not for long. The global recession and the mass failure of the markets in 1929 had reduced money availability in the world's fashion capitals, causing the demand for the highly regarded Gulf pearl to recede, depriving the country of yet another source of income.

Only half of the 700 pearling boats and half of the 10,000 sailors and divers it had during its peak years were out pearling the seabed in the south of the country. But it was the invention of the Japanese pearls by the famous Mikimoto Kokichi that finally served the final blow to specialized trade in pearls. The new cultured pearls made the more expensive Gulf pearl less attractive and practically disintegrated Kuwait's only exportable commodity industry. The innovation hit Bahrain, the stronghold of the Gulf pearl trade, the hardest. In their attempt to regain some of their long-held lead in the pearl trade, Gulf's merchants were ready to follow the Japanese in cultivating pearls in the warm waters of the Gulf, but the idea, despite the decline of the pearl trade, was resisted by the British. The Political Agent noted that it would harm the trade in the genuine pearl "if it were suspected by the big buyers that culture pearls were being made" in the gulf.<sup>324</sup>

The decline of the economic activities took a heavy toll on all, deteriorating the lives of the 60,000 inhabitants within the gated wall. Their mud houses were always susceptible to rain, and despite the simplicity of their food limited to rice, fish, and the locally planted vegetable and

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<sup>323</sup>Kuwait, 1908-1928 by Mr. J G Laitwaite, India Office, October 1<sup>st</sup>, 1928 (CL/P&S/18/B/395)

<sup>324</sup>Mark Hobbs, British resist modernization of pearl industry, Qatar archive

dates, it was never enough, causing malnutrition of the more impoverished population. Like the poor Indian villages, the sight of women fully covered in black from head to toe with a heavy load of clothes walking to the sea to do the family laundry in the cold winter or the heat of the summer was too familiar. Even the "meager existence" of the poor began to deteriorate further in the late twenties as a result of the trade embargo imposed by Najd and by the decline of demand for precious pearls.<sup>325</sup> "The acute poverty found many poor barely able to keep themselves alive."<sup>326</sup>

Ultimately, the spread of poverty, lack of education, and limited medical service broadened the outbreak of an epidemic in 1932, causing the death of over 4000 persons in the first ten days alone.<sup>327</sup> The hard rain that followed a couple of years later, in December 1934, forced many poor families to abandon their mud houses into makeshift tents that became permanent for some. Paradoxically, just a few days later, the oil concession agreement with the Sheik was concluded.

### **Economy of Kuwait**

Neither during the reign of Sheik Ahmad nor those preceded him the country had any fiscal regulation or budget. Not only because of the limited resources and the simplicity of the expenditures but also because the income and the expenses of the Sheik were inseparable from that of the state. There were few governmental expenses other

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<sup>325</sup> Helem Chapin Metz, ed. *Persian Gulf States: A Country Study*. Washington: GPO for the Library of Congress, 1993. Kuwait/ the economy

<sup>326</sup> Political Agent, Kuwait to Secretary to Political Agent, Bushire, May 25<sup>th</sup>, 1931 (R/15/1/506)

<sup>327</sup>H. V. F. Winston and Zahra Freeth, *Kuwait Prospect and Reality* p.194, Routledge, Kuwait

than those guarding the Sheik and the souk, custom collector, and maintaining the bazaar roads and lighting. There was no regular army and few bureaucracies; even when new schools were opened, the merchants introduced an education tax.

The first attempt to organize Kuwait's fiscal affairs was suggested by Sheik Mubarak in 1915, during WW1. He solicited "the British Government to manage for him all sources of revenue and pay him the income." The British realized the advantage of crystallizing their prominent position in Kuwait, but the local British authorities turned down the offer since it required large staff, customer officers, revenue collectors, and accounting offices. They realized that it "would involve a considerable cost, which might be considered by the Sheik as excessive."<sup>328</sup>

Sheik Abdulla Al Salam, the influential assistance and the heir to Sheik Ahmad, attempted to self-organize the country's fiscal affairs. His first move was to assign monthly salary and allotment to the members of the ruling family, including the Sheik and himself, rather than the prevailing open purse. His suggestion caused discontent with many members of the ruling family and forced him to withdraw his proposal. Sheik's attempt ended perhaps the first opportunity for a financial institution to be established and function on the Arabian side of the Gulf,<sup>329</sup> outside of Iraq.

Active trading and pearling created an economic and social hierarchy of pearl merchants, ship owners, ship captains, sailors, and divers, mostly on the merchants' payroll. The economy and, to a certain extent, Kuwait's social structure reflected that relationship. The merchants' establishment that migrated to Kuwait from Basra in the

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<sup>328</sup>Foreign Secretary, India to Lt-Col Sir P Cox at Basra, Nov 18<sup>th</sup>, 1915 (R/15/5/59)

<sup>329</sup>Hussain Khalaf Sheik Khazel, *The Political History of Kuwait* (Arabic), v5, p.18

late 18<sup>th</sup> century “linked the productive centers (Iraq, Persia, and India) to the local consumer by the development of the maritime means of distribution and exchange.” The local petty merchants “were the middlemen merchants between the merchants and subsistence consumption” either locally or in the nearby deserts.<sup>330</sup> Merchant prosperity and their political and social strength lay in their control of the local merchants, pearl divers, and nomadic workforce by providing employment and perpetual loans to the desperate population. With no banking apparatus, loans with an annual return of 20% were typical. The local laborers and divers were constrained by year-round loans to the ship owners obliging them to return to the lender’s ships in a system that was on the verge of bonded employment. There was, until the arrival of the oil companies, no means for the divers “to repay their loans and free themselves from the crippling debt system that was the foundation of their master wealth.”<sup>331</sup> Even as late as 1939, the sailor’s salary for nine months voyage was 135 rupees (\$40), while the merchant take was 11,000 rupees.<sup>332</sup>

The economic hardship ended as a new source of revenue and income for many of the poor emerged. Exploration and discovery of oil in 1937-1938 provided employment for many who served on the pearling ships, town laborers, and Bedouins from the nearby deserts. The internal agitation and unrest that synchronously erupted with the oil discovery, although settled with difficulties and bloodshed, changed the power structure of the

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<sup>330</sup>Jacqueline Ismail, Kuwait, Dependency and Class in a Rentier State, p.55,

<sup>331</sup>Introduction by A de L Rush, Records of Kuwait 1899-1961, v5, Petroleum Affairs, Archive Edition 1989

<sup>332</sup> Villiers, A., Some aspects of the Arab Dhow Trade, Middle East Journal, V2, No.4, October 1948, p.416

country, while the oil wealth disrupted the long-established social structure.

## Conflict with Iraq

The Iraq-Kuwait border was concluded at Al Uqair Conference without much funfair. The British High Commissioner for Iraq, Sir Percy Cox, proposed to the Colonial Office that it would be reasonable to recognize the Green Line of the Anglo-Turkish Convention of 1913 as the boundary between the two countries<sup>333</sup>. Though no maps were included, Cox described the border as:

“From the intersection of the Wadi-El-Audja with Batin and thence northwest along the Batin to a point just south of the Latitude of Safwan: thence eastward passing south of Safwan wells, Jabal Sanan and Um Qasr, leaving them to Iraq and so on to the junction of Khor Zobier with Khor Abdulla. The Islands of Warba and Bubiyan, Maskan, Falika, Auhah, kubbar, Qaru, and Ul-El- Maradim appertain to Kuwait.”<sup>334</sup>

The boundary was approved through an exchange of letters in April 1923 between Sheik Ahmad, the Political Agent in Kuwait, and Sir Percy Cox in his capacity as the High Commissioner for Iraq. It became the basis of all future negotiations and the UN resolutions in the late 20<sup>th</sup> century.

The fact that Iraq's eligibility to join the League of Nations, after its independence from Britain two years earlier, was contingent on having a well-defined border

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<sup>333</sup> M.H. Mendelson and S.C. Hulton, *The Iraq-Kuwait Boundary: Legal Aspects*, p.299

<sup>334</sup> Definition of Iraq-Kuwait Frontier, P. Z. 2828/32, cited Richard Schofield, *Arabian Boundary Dispute*, v.4, Iraq- Kuwait p.251, Archive Editions 1992

obliged its government to request Kuwait to reaffirm the frontier between the two countries. In a letter drafted by the British Political Agent in Bagdad dated July 21<sup>st</sup>, 1932 to Sheik Ahmad, the Iraqi Prime Minister Nuri Al Saed Pasha requested the formal reaffirmation of the frontiers to be identical to that described by Percy Cox and identified in the of the Anglo-Turkish Convention of 1913. In his reply, the Sheik noted that the frontier was approved by the British Government and agreed to reaffirm the existing boundary between the two countries as described in the Prime Minister's letter.<sup>335</sup>

Though the Iraqi Government favored a more direct communication with Kuwait, the British persisted in their engagement to ensure that Kuwait adhered to the 1899 Treaty when dealing with other countries and to ease the Sheik's apprehension and skepticism of the Iraqi government's intention. The fear of the old claims and the threat to Kuwait's sovereignty was always real; the Sheik even complained to the Political Agent in Kuwait in June 1932 that "when Iraq gets her final independence and joins the League of Nations; she will become Turkish in spirit if not in actual fact."<sup>336</sup>

The Political Resident in the Gulf, Sir Lionel Haworth, shared sheik's fear; he noted that Kuwait would be annexed when we leave in spite of our wishes. He stressed that Iraq's claim over Kuwait to be rejected as a policy by the British Government. He remarked that "it must be an essential part of our policy that Kuwait is kept apart from Iraq- it is inevitable that it should be the tendency of Iraq to gradually assimilate Kuwait even if there is no

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<sup>335</sup> M.H. Mendelson and S.C. Hulton, *The Iraq-Kuwait Boundary: Legal Aspects*, p.299

<sup>336</sup> Confidential letter from Political Agent, Kuwait to Lit-Col H. R. P. Dickson to the Political Resident, Bushire, June 7<sup>th</sup>, 1932

conscious knowledge of the fact among the officials of the Iraqi Government.”<sup>337</sup>

Sheik's prophecy was not too far off. Although Nuri Al Saed had recognized Kuwait-Iraq's border just before Iraq's independence in 1932, his Government laid historical claims to Kuwait immediately following the declaration of Iraq's independence. Iraqi claims and hostilities were soon pursued through intimidation and propaganda, escalated from friendly advice to interference in the internal affairs during the 1938 unrest and outright demand for annexation. Iraq's Government was soon contradicted its own affirmation of a recognized border on the ground that it contravened the terms of the Mandate. The first newspaper articles post-Iraq's independence encouraged unity and accentuated the merits of integrating Kuwait and Iraq, while others attacked the Sheik and the ruling family. The Bagdad newspaper, *Al-Akha Al Watani*, representing the reigning Prime Minister, Rasheed Al Gaylani, published an article in May 1933, promoted unity because “we would become a power that could not be repulsed.” The writer concluded that had Kuwait “been a part of strong government, they would not have suffered such a heavy loss of so many youths,” in reference to the Ikhwan's attack in 1928.

The rhetoric and propaganda markedly picked up a few years later. The mild suggestion of unity soon turned into sustained demands for military interference to force the annexation of Kuwait and to encourage internal discontent. Newspaper articles continuously attacked Kuwait's administration for failing to provide education and medical services<sup>338</sup> and for denying the citizens of Kuwait any participation in the affairs of the country. In an

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<sup>337</sup> Memorandum by J G Laitwaite, India Office on “Kuwait, 1908-1928”, October 1<sup>st</sup>, 1928 (L/P&S/12/3737)

<sup>338</sup> H. Rahman, *The Making of the Gulf War, Origins of Kuwait's Long-Standing Territorial Dispute with Iraq*, p.115, Ithaca Press

article in 1936 in Al-Karkh, the paper demanded the Iraqi Government to strike Kuwait's name off the list of Arab countries and annex it to Iraq.<sup>339</sup> Propaganda attack was by early 1938 augmented with King Ghazi's radio transmission from his "Palace of Roses," established exclusively to drive his claim over Kuwait. He attacked the Sheik and his government with an ever-increasing vigor and relentlessly urged the annexation of Kuwait.

The unrest in Kuwait in 1938-1939 was an opportunity for the Iraqi media to have a field day. Bagdad newspaper and the King's radio station became the mouthpiece for the anti-Government movement. Though very few Kuwaitis support the notion of uniting with Iraq, the rhetoric in the Iraqi media was increasingly encouraging defiance against their government. Without any Kuwaiti newspaper or media of its own, the Iraqi media campaign was the sole source of information for most of the population in Kuwait.

The British attempts to pressure the Iraqi authorities, including King Ghazi, to halt their assault, the Iraqi media's relentless attack on Kuwait continued. The Foreign Office expressed displeasure with continuous propaganda; HMG Ambassador to Bagdad pointed out in early 1939 that demands for annexation could only lead to tension between Iraq, her neighbors, and Britain. He demanded the King disclose his real motives.<sup>340</sup>

The annexation claim of Kuwait was soon the topic of discussion between the British and Iraqi diplomats in the hope of reaching an understanding. The Iraqi Foreign Minister, Taufiq Al Suwaidi, officially aired Iraq's claim over Kuwait in his talk with British Ambassador Sir Maurice Peterson in April 1938. He noted that according to the Anglo-Turkish Agreement, "Kuwait, had since 1913

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<sup>339</sup> H. Rahman, *The Making of the Gulf War, Origins of Kuwait's Long-Standing Territorial Dispute with Iraq*, p.103, Ithaca Press

<sup>340</sup> H. Rahman, *The Making of the Gulf War, Origins of Kuwait's Long-Standing Territorial Dispute with Iraq*, p.116, Ithaca Press



been technically a Kazi of the Basra Vilayet and the sovereignty of the Vilayet was passed from the old Ottoman Empire to the new Iraqi Kingdom, Kuwait now stood in relation to Iraq in the same position as it had stood in relation to the Ottoman Empire at the time when the Anglo Turkish Agreement was negotiated." The Ambassador repudiated the minister's claims and argued that "Turkey had under the Lausanne Treaty renounced all rights and titles over Kuwait, and that as such, the renunciation of these rights had finally ended." The fact that these rights were terminated, it could not, therefore, be transferred to any State.<sup>341</sup> British Secretary of State informed the Iraqi Foreign Minister, during their meeting, that he categorically rejected any claim to sovereignty over Kuwait and refused the more modest permission to use Kuwaiti land to build an exclusively Iraqi port on Kuwait Bay to ease the access to the open sea.

Iraq's unsuccessful attempts to interfere in Kuwait's local politics and their failure to persuade the British, Bagdad's remaining option was narrowed to military invasion. In March 1939, The British Air Liaison in Basra discovered "that the Iraqi Government had prepared a plan to invade Kuwait, after the failure of the unrest in Kuwait that followed the 1938 constitutional crisis."<sup>342</sup> The Iraqi Army would occupy the strategical town of Jahra before moving in to support an internal uprising. However, the controversial death of King Ghazi in April 1939 froze the invasion, practically ended the fierce campaign against Kuwait, and to a great extent eased the tension. But the

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<sup>341</sup> Sir Maurice Peterson, British Ambassador to Bagdad to Viscount Halifax, Foreign Office, April 19<sup>th</sup>, 1938 (FO 371/21858, FO 406/75, R/15/5/159 and R/15/5/208)

<sup>342</sup> H. Rahman, *The Making of the Gulf War, Origins of Kuwait's Long-Standing Territorial Dispute with Iraq*, p.118, Ithaca Press. See also, Squadron Leader (Air Liaison Officer, Basra) to Political Agent, Kuwait no.1/65/292/9, March 29<sup>th</sup>, 1939

demand for unity or the contemplation of an invasion never died.

The issue of the precise border between the two countries continued to be a point of contention. From 1932 onward, discussions were "entrenched in an intractable pattern of dispute: Iraq would agree to the final demarcation of the land boundary as defined in 1932 exchange of notes, only if Kuwait first agreed to the cession or lease of the Warba and Bubiyan. Kuwait, which had tenaciously resisted all suggestion to cede or trade portions of its northern land and islands territories, has traditionally refused to consider leasing Warba unless Iraq first agreed to the demarcation of the existing land boundary"<sup>343</sup>.

The desire of the Iraqi Government to develop a new port somewhere on Khor Abdulla and its extension of Khor Zubair had "lent further importance to the question of the frontier."<sup>344</sup> The Political Resident noted that few miles where the frontier runs were not much important to the British Government; however, it was "considerable to the Sheik and the Iraqi Government where it runs to a few hundred yards, given the possibility of the discovery of oil."<sup>345</sup> Border tension finally eased by the early 1950s; Sheik Abdulla Al Salam expressed in 1953 that he had no objection to Iraq's plan for a new port in Umm Al Qasr on Khor Zubair. Once the tension was eased, drilling for oil on both sides of the border was initiated.

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<sup>343</sup> Richard Schofield, *Territorial Foundation of the Gulf States*, p.153, UCL Press.

<sup>344</sup> Richard Schofield, *Arabian Boundary Dispute*, v.4, Iraq-Kuwait p.324, Archive Editions 1992

<sup>345</sup> Richard Schofield, *Arabian Boundary Dispute*, v.4, p.314, Archive Editions 1992

## **7 Concession at Last**

The discovery of oil in Persia in 1908 and the enormous increase in world oil consumption at the turn of the twentieth century promoted the Anglo Persian Oil Company (APOC) and other European oil companies to earnestly pursue concession in the Gulf region. Even before the breakout of the Great War, the British were adamant to secure all of the oil concessions in the territories around the Gulf. The British Admiralty's new policy to replace coal with fuel oil in its Navy ships promoted the British Government to issue in 1904 a general guideline on oil limiting any future oil concessions in the British colonies to British-controlled companies alone. John Fisher, head of Admiralty, had insisted that only by securing British concession would ensure his country enough fuel supply to its Navy ships.

Charles Greenway, the Managing Director of the Anglo Persian Oil Company (APOC), warning to the British authorities in the Gulf in 1911 of a possible Shell approach to the Turkish Government for an exclusive concession in Kuwait was perhaps an eye-opener of possible risk to London's oil policy. He appealed, in November 1913, to Lieutenant-Colonel Percy Cox, the Political Resident in

## CONCESSION AT LAST

Bushire, for an exclusive oil concession in Kuwait from Sheik Mubarak. His request was obviously inspired by business needs and his awareness of the possibilities of losing the opportunity for future concession in the region to his non-British rivals, specifically, Shell- Royal Dutch, closely associated with the Deutsche Bank and the US-based Standard Oil.<sup>346</sup>

Although APOC's request did not materialize, it promoted the Political Resident in Bushire to urge his Government in India to retain "the oil fields of Gulf region under exclusive British control" in conformity with Britain's general oil policy issued in 1904. Cox suggested to the Indian Government in the summer of 1912 to consider "obtaining from the Sheik an option or concession for the minerals in Kuwait territory" before concluding an agreement in the ongoing negotiations with the Turks to settle the jurisdiction of the territories surrounding the Gulf. He feared that, without a commitment from Sheik Mubarak for any future concession to the British, an agreement with Porte could prejudice the British chances of exclusivity in Kuwait. His overture was first rejected by the Indian Government and by the cautious British Ambassador to Porte, Sir Nicholas O'Connor. The Ambassador did not "consider the moment opportune for action in that direction,"<sup>347</sup> most likely out of concern not to rock the ongoing delicate negotiation and the desire of Great Britain to keep Turkey on their side in the anticipated European conflict.

The British diplomats felt more at ease to request exclusive rights from the Sheik of Kuwait once the

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<sup>346</sup> Letter from Mr. Greenway, Managing Director, Anglo Persian Oil Company to Lt-Col P Z Cox, Political Resident Bushire, November 3<sup>rd</sup>, 1913

<sup>347</sup> Confidential letter 3154 from Political Resident Bushire to Foreign Secretary, Government of India, Simla India, November 26<sup>th</sup>, 1912, (R/15/5/236)

“Convention between UK and Turkey Respecting the Gulf and Adjacent Territories” was signed in July 1913. Sheik Mubarak readily accepted the request made by the Political Resident in October 1913 (Appendix 4) and agreed “not to give a concession to anyone other than a person nominated and recommended by the British Government.”<sup>348</sup> Notwithstanding Sheik Mubarak’s disappointment with the conclusion of the Anglo-Turkish Convention only a few months earlier, he prudently realized that Britain’s economic interest would most likely support his ambition to achieve independence and to break once for all from his detachment to the Porte.

Sheik’s commitment served the British policy of blocking “any attempt on the part of Porte to include the Kuwait Oil fields within a concession which it may grant” for Mesopotamia and other Ottoman Empire territories.<sup>349</sup> His exclusive commitment became the cornerstone of APOC’s long negotiation after the war with the reigning Sheiks and was even reflected in the 1928 “Redline Agreement” and became a point of contention with the United States “Open-Door” policy.

An opportunity presented itself for Cox to press his point for exploration for oil in Kuwait. Sheik Mubarak, in desperate need of freshwater supply for the population of the city, pleaded with the British through the local Political Agent to assist him in furnishing the town with an adequate water supply. Kuwait’s population had increased due to the growth in pearling activities and the improved trade atmosphere in the all-important global pearl market. The influx of Persian artisans and laborers, by then

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<sup>348</sup> Letter from Sheik Mubarak Al Sabah, Ruler of Kuwait to Political Resident, Bushire October 27<sup>th</sup>, 1913 (R/15/5/236) (See Appendix)

<sup>349</sup> Confidential letter 3154 from Political Resident Bushire to Foreign Secretary, Government of India, Simla India, November 26<sup>th</sup>, 1912, (R/15/5/236)

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permanent residents of the country, had encouraged and stimulated more activities. New market places had opened, new houses were built, and new boats were added to the fleet as a result of growth in the pearling trade.<sup>350</sup> Freshwater hauled by boats from Shatt Al-Arab just north of the border had largely replaced the more brackish water from the wells on the outskirts of the town. Pearling Boats were being used during the idle winter season to carry water to Kuwait, and new boats designed with large water tanks were being exclusively built. It became a thriving new business, so lucrative that even the Sheik was contemplating joining the business with his new steamer boat.

The Sheik was keen to find a more secure source of water immune from interruption caused by high winds or shortage of boats or crew to meet the need for potable water. To use his own words, he wanted "a machinery plant for making it from seawater or by digging wells which may produce water from the earth." He sought geological assistance for possible excavation of artesian wells nearer to the town and financial and technical assistance for the desalination plant to be paid back in installment.<sup>351</sup>

Cox perceptively realized the opportunity being presented to the British Government to explore for oil before the breakout of the war. He suggested in a confidential letter to the Indian Government, for "a careful examination of the fields of Kuwait territory by an expert geologist, while nominally examining the potentialities of the artesian wells in the region, is a most favorable one and not likely to recur." He wanted it to be done with care, not to raise the Sheik suspicious or discussed with anyone

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<sup>350</sup> Letter from Political Agent, Kuwait to Political Resident, Bushire, November 13th Nov 1912, No 459 (R/15/5/236)

<sup>351</sup> Letter from Political Agent, Kuwait to Political Resident, Bushire, November 13th Nov 1912, No 459 (R/15/5/236)

in Kuwait, including Britons, and to be done fast while the Sheik was still in the mood.<sup>352</sup>

The covert geological mission was limited to observation for signs of oil deposit in Burgan, 25 miles south of Kuwait. The outcome reported with optimism: "nature of the bed beneath Burgan is no different from that of the Fars in Persia; it is sufficiently porous to retain oil in workable quantities." However, their conclusion that the chances of finding oil as "decidedly speculative"<sup>353</sup> was somewhat baffling and did not fit well with the declared similarity of geological structure to that of the proven oil reservoirs of Persia.

A more formal and conspicuous visit was commissioned by Winston Churchill, the Head of Admiralty, to report on oil prospects in Kuwait and Bahrain. The first official geological team headed by the Rear-Admiral Sir Edmond Slade visited Kuwait in November 1913, accompanied by John Cadman, a mining engineer who became in 1927 the influential head of Anglo Persian Oil Company. The visit was meant to include a visual survey of the same place where bitumen traces in Burgan had been previously observed. A well-stocked camp was set up six miles away from a small port of Shubia in the south of the country, fully prepared with dining tables and chairs, while the visit report read more like a news bulletin than a geological assessment; nothing of substance was reported.

It was a visit with a more political inclination and setting the future groundwork. It was perhaps as theorized by A. de I Rush in his introduction to Volume 5 of

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<sup>352</sup>Confidential letter 3154 from Political Resident Bushire to Foreign Secretary, Government of India, Simla India, November 26th, 1912, (R/15/5/236)

<sup>353</sup>Letter from H Holton Hayden, Director, Geological Survey of India to the Secretary to the Government of India, Department of Commerce, and Industry, Simla May 7th, 1913, including Geological Report on Kuwait's Oil Prospect no 2392-758

## CONCESSION AT LAST

Petroleum affairs of Records of Kuwait<sup>354</sup> that “no one genuinely wanted oil to be found in Kuwait.” He noted that the Anglo Persian Oil Company, intimately connected with the British Government, was hitherto capable of providing practically all Britain’s civilian and military needs. The realization that a new supply source would only add more oil to the already saturated market would threaten the ongoing profits from their lucrative Persian operation. He concluded that as long as the Sheik’s commitment of exclusivity was secured, it was best to keep the oil under the sands; concession with the Sheik could wait.

The breakout of World War One and the British immense preoccupation with the war efforts put the Kuwaiti oil issue on the back burner. There were, however, sporadic attempts by APOC representative in Abadan for an opportunity to carry out geological reconnaissance of other locations of Kuwait not visited earlier. One such occasion was a preliminary examination conducted during the critical fight for Al-Kout in October 1915.

APOC was once again active in their endeavors to secure their position in Kuwait as the fighting ceased, and the British forces occupied all the three provinces of Iraq. However, their application in October 1917 for petroleum rights in Kuwait territories without “incurring heavy expenses on deep test wells”<sup>355</sup> was rejected by the British Civil Commissioner in Bagdad on the grounds of the uncertainty of the political situation and the inevitability of the award of Kuwait’s oil concession to the Britons.

It was not till the end of 1921 that the long-awaited authorization to initiate negotiation with the Sheik was granted, on the condition that all contacts with him were

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<sup>354</sup>Record of Kuwait 1899-1961 Petroleum affairs Introduction to V5 p xxxiii, Selected and Edited by A de L Rush

<sup>355</sup> Telegram from Secretary of State London to Viceroy of India, October 16<sup>th</sup>, 1917 (R/15/5/236)



through the medium of the Political Agent office.<sup>356</sup> The British Government's insistence on channeling concession activities through the British local authorities was, as described by the Political Agent, "intended to protect the rulers themselves against the pernicious activities of unscrupulous Concession hunters and to restrict the grant of Concession to reputable British firms."<sup>357</sup>

Just before Christmas of 1921, APOC from its Persian headquarters in Muhmmara drafted a concession as the basis of negotiation with the Sheik of Kuwait and requested the British high commissioner in Bagdad blessings and authority to commence their contact with the Sheik. The proposed concession assumed the right to explore Kuwait's entire territory, as defined in the unratified 1913 Anglo-Turkish Agreement. The British authorities realized the complication of assuming Kuwait's boundary limits as defined in the agreement and were not ready to approve APOC's proposal.

The possibility of the scarcity of oil after the War in the US and Western countries due to the drastic increase in the automobile population promoted APOC yet again to approach the Sheik in December 1922 with the hope of an expeditious conclusion. Their enthusiasm soon cooled as Oklahoma's newly discovered oil fields drowned the US market and reversed the earlier doomsday prediction. APOC's office in Abadan was instructed to "delay any negotiation to the extent necessary to prevent other people from being given a concession."<sup>358</sup> The ebbs and flow in APOC attitude toward concession in Kuwait continued for the next decade, echoing changes to market

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<sup>356</sup>APOC internal memo from Mr. Nichols to Sir John Cadman, October 1<sup>st</sup>, 1925 BP ArcRef: 70618

<sup>357</sup>Archibald Chisholm, *The First Kuwait Oil Concession Agreement, A Record of the Negotiations 1911-1934*, p. 9

<sup>358</sup> Report titled Koweit, internal note by Sir A T Nelson, BP ArcRef: 70617

## CONCESSION AT LAST

situation and chasing the impending shortage or excessive supply throughout the 1920s.

At this juncture, Major Holms's Eastern and General Syndicate (EGS) appeared on the scene. To a certain extent, Holms's energetic persistence and the rivalry and later with his American partner kept APOC's interest in Kuwait alive despite the pessimistic geological reports and the market glut. Contrary to APOC's skepticism of finding oil in Kuwait, Holms was confident of the prospect of finding immense fields under the desert sands. He made a direct offer in May 1923 to the Sheik, indifferent to the Colonial office injunction that disallowed direct dealing with the Sheik. Despite the superior nature of the terms and price, neither the Sheik nor the Political Resident could accept or approve his overture. It was nonetheless an eye-opener for the Sheik and resulted in his rejection of APOC's proposal. Holms's unorthodox interjection provided the Sheik with some understanding of the value of oil if found and a fair price for his concession.

The Political Resident informed the Sheik that the British Government would not agree to grant Kuwait oil concession to EGS if APOC can offer at least as good terms as that of EGS within a set period.<sup>359</sup> If APOC refused, the British Political Authorities in the Gulf were obliged to recommend the EGS proposal when resubmitted to the Political Resident. The Sheik realized the merits of the new competition and was ready to take advantage of the situation when it was ripe. APOC had reached the same conclusions; Sheik Ahmad was satisfied with his unique situation and would not sacrifice his newly acquired advantage presented by EGS and APOC's offers. Despite Sheik's verbal assurance to APOC during his visit to the Persian oil fields and to the refinery in Abadan in 1924

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<sup>359</sup> Report titled Koweit, internal note by Sir A T Nelson, BP ArcRef: 70617

that he “will grant the concession to no one but themselves,”<sup>360</sup> APOC realized that they were not alone.

APOC was unwilling to take up the concession without complete immunity from customs on company goods imposed by the Colonial Office.<sup>361</sup> Their apathetic attitude and insistence on the best possible deal with minimum expenses were influenced by the company’s repeated pessimistic geologists’ reports. In 1925, Professor Bockh, advising the Anglo Persian Oil Company, concluded that “if any oil is found, it will be in such small quantities as to be commercially of little value and does not recommend any action on the part of APOC to obtain a concession.” APOC announced that “they are not interested in obtaining a concession and should interpose no obstacle in the way of Major Holms’s or other parties”<sup>362</sup> for a concession. APOC’s attitude eventually hunted them when they decided to compete once again for the rights to explore for oil in Kuwait.

EGS finally overcame their technical and financial handicap once the U.S.-based Gulf Oil agreed in late 1927 to takeover EGS interest in Kuwait. EGS was desperate to sell the potential concession after its disappointment in Bahrain and its failure to convince APOC to purchase Kuwait’s concession rights. Most likely, Gulf Oil was induced by the closely guarded sample of an oil trace in the water that Holms had obtained from a well as part of his contract with the Sheik to drill for water<sup>363</sup>. He had found his first undisputed sign of oil earlier that year while he was drilling for water in Bahra not too far from Kuwait

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<sup>360</sup> Extract from Management Committee Report, April 21<sup>st</sup>, 1925. BP ArcRef: 70618

<sup>361</sup> APOC internal memo from Mr. Nichols to Sir John Cadman, October 1<sup>st</sup>, 1925 BP ArcRef: 70618

<sup>362</sup> Report titled Koweit, internal note by Sir A T Nelson, BP ArcRef: 70617

<sup>363</sup> Archibald Chisholm, *The First Kuwait Oil Concession Agreement, A Record of the Negotiations 1911-1934*, p. 14

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Bay and had used his findings to convince Gulf Oil to accept his offer to purchase the prospect of a concession.

American's entry into the concession delighted the Sheik; as far as he was concerned, Gulf was detached from any political inclination; for the first time, APOC would face a worthy competitor with technical capabilities and a deep pocket.

There was, however, a new complication. The British Government insisted in November 1928 that all concession offers and proposals should have a "Nationality Clause." The clause was designed to limit the award of oil concessions in Kuwait to companies registered in Great Britain, controlled by British management, and employed British or local citizens.<sup>364</sup> Naturally, the new clause would exclude Gulf and other American companies from participating and competing for Kuwait's concession.

Despite Major Holms' full awareness of the terms and the importance the British Government attached to the Nationality Clause, he presented a new proposal drafted by Gulf in June 1928 to the Sheik and the Political Resident. Expectedly, the local Political authorities promptly dismissed his offer, but once again, the generous terms prescribed in EGS and Gulf proposal set a new floor for any future offers.<sup>365</sup> The rejection of the EGS offer and the question of the Nationality Clause gave APOC a much-needed breathing space. The discovery of the enormous oil reserve in 1928 in Baba Gurgur in northern Iraq had shifted APOC's attention and energy from acquiring the concession in Kuwait to the oil fields of Kirkuk. They were not ready to expand their business in the atmosphere of persistent oil glut, depressing world economy, and the 1929 stock market crash.

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<sup>364</sup> Archibald Chisholm, *The First Kuwait Oil Concession Agreement, A Record of the Negotiations 1911-1934*, p. 16

<sup>365</sup> Archibald Chisholm, *The First Kuwait Oil Concession Agreement, A Record of the Negotiations 1911-1934*, p. 15

It was another two years, in August 1930, that Holmes submitted a new concession proposal to the Colonial office in London from Gulf Oil subsidiary in Canada in the same manner Bahrain concession circumvented the limitation of the Nationality Clause. Even then, APOC was not so interested; not only were their hands full with the new challenges to their Persian holding from the Shah, they continue to be pessimistic about the prospect of finding oil in Kuwait. The Chairman of APOC, Sir John Cadman, expressed his company's view in the early thirties that Kuwait "has always been recognized that the search for oil was a very long shot."<sup>366</sup>

APOC's attitude soon changed. The weakness of relying on a single source of oil was evident in the standoff between the Persian Government and APOC. The risks of nationalizing APOC in the early thirties by Reza Shah forewarn the British Government of the strategic imperative for a second source. The discovery of oil in the supposedly barren Bahrain by Standard Oil of California, and an intelligence report issued in January 1931 that alluded to "spring of pure bitumen and tar oozing out from a crater-like depression," and the many bituminous spots that could be seen on the surface in Burgan<sup>367</sup> did finally convinced APOC of the strong possibility of finding oil in Kuwait.

The strenuous rivalry between APOC and Gulf and their respective Foreign Offices did not help the citizens of Kuwait. The dire situation in Kuwait had worsened; the collapse of the pearl industry as fallout from the global recession and the continued land blockade by the government of Najd was becoming more suffocating. The

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<sup>366</sup> Archibald Chisholm, *The First Kuwait Oil Concession Agreement, A Record of the Negotiations 1911-1934*, p. 127

<sup>367</sup> Confidential letter from Political Agent, Kuwait to Lt-Col H V Biscoe, The High Commissioner for Iraq, January 12<sup>th</sup>, 1931/CO782/45/6

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land blockade had reduced her customs revenue from 13 lacs to 1 lac of Rupees in 10 years (1923-1933)<sup>368</sup>. The Sheik was increasingly under pressure to conclude an oil concession with the hope of reliving the dire situation in the town and could be their savior if oil was found. The expectation of employment would provide jobs for the poor and would release them from their perpetual debt.

The seriousness of the American oil companies to bid for Kuwait concession, and the persistent demand of the US State Department to adopt the "Open-Door" policy,<sup>369</sup> obliged the British Foreign Office to suggest to the Sheik that it was more suitable to "HMG purpose that he should be the person to tell Major Holmes" of the imperative to insert the Nationality Clause in their bid.<sup>370</sup>

The passing of the buck to the Sheik proved ineffective and soon backfired. The Sheik wrote to Holmes and his American partner in July 1931 the need to maintain the British Control clause, but to the disappointment and fury of the local British bureaucrats and the India Office, he linked his willingness to omit the clause to HMG Government's acceptance and approval. Even with the Political Agent's back paddling and his suggestion for the Sheik to clear the misconception, the Foreign Office realized it was too late. The Americans would definitely accuse the British of "dragging it out of the Sheik."<sup>371</sup>

Refusal of the Colonial Office to conclude their view on the concession proposal submitted by EGS/Gulf in 1928 led to an exchange of letters between the UK's Foreign Office and the US Embassy in London. Though it was

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<sup>368</sup> IOR: R/15/1/715/4, Annual report for 1934, p.53

<sup>369</sup> Letter from J W Rendell, Foreign Office to Undersecretary of the State for the Colonies, December 3<sup>rd</sup>, 1930 (CO 723/45/6)

<sup>370</sup> Confidential note on the conversion between Political Agent, Kuwait and the Ruler of Kuwait, October 10<sup>th</sup>, 1931 (R/15/5/289)

<sup>371</sup> Letter from Political Resident, Bushire to Political Agent, Kuwait, February 5<sup>th</sup>, 1932 (R/15/5/239)

generally cordial, it was at times hostile, primarily because of the British desire to include "the Nationality Clause" and the deliberate procrastination of the Colonial Office in approving the American proposal. Negotiation between the two governments was further complicated by Mr. Andrew Mellon's appointment, a senior member of the family with a substantial interest in Gulf Oil, as the new American Ambassador to London in February 1932.

The British Cabinet ultimately agreed to enact the Open-Door policy and remove the need for the Nationality Clause after receiving a formal request from the US embassy in April 1932, allowing the Sheik of Kuwait to accept EGS/Gulf concession proposal.<sup>372</sup> The Americans had, at last, a foot in the door. APOC and Gulf/EGS resubmitted their proposals in the summer of 1932 to the Sheik and the Colonial office in London. The Sheik had two bidders for the oil in his territory not yet discovered. He summarized the situation in his own words "I have now two bidders and from the point of view of a seller that is all to the good."<sup>373</sup>

The Petroleum Department of the Colonial office did a fair comparison in November 1932 of the two offers, but to the dismay of the Political Resident, it did not advise the Sheik "at which of the two concessions it would be to his advantage to accept."<sup>374</sup> Though both offers were based on 70 years concession period, it was the Monterey clauses that had the utmost impact on the Sheik. APOC offered 50,000 Rupees upon signature, while the EGS offer was only 30,000 Rupees. However, the Royalty was the eye-

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<sup>372</sup> Letter from Major Frank Holms, EGS to Political Agent, Kuwait, April 29<sup>th</sup>, 1932 (R/15/5/239)

<sup>373</sup> Archibald Chisholm, *The First Kuwait Oil Concession Agreement, A Record of the Negotiations 1911-1934*, p. 26

<sup>374</sup> 'Doc F-81 82/1-V A.P.O.C. Kuwait' (113r) (242/393), British Library: India Office Records and Private Papers. IOR/R/15/1/622 in Qatar Digital Library archive, accessed 4 November 2019

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opener; EGS offered Rs. 3-8 (3 Indian Rupees and 8 annas) per ton compared to APOC proposed of Rs. 2-10 per ton of crude, similar to Iraq's IPC concession.<sup>375</sup> Despite the long-term advantage of royalty payment, the Sheik was more in tune with the immediate payments than future returns if and when oil is produced.

Meanwhile, the conflict between the Persian Government and APOC was accelerating. Shah Reza Pahlavi of Persia had already revoked the long-standing concession amid many grievances and was in the midst of negotiation for a new settlement. The possibility of losing the Persian concession heightened the British's resolve to fight for the Kuwait concession. The vigorous pursuit of Gulf Oil backed by the US Government for Kuwait concession and the persistence of APOC Chairman in December 1932 "to press to the bitter end"<sup>376</sup> had roused the competition to a new pitch. APOC was resolved to resist further elbowing of the US oil interest in Britain's traditional sphere of influence and to prevent the Sheik from granting the Kuwait concession to EGS/Gulf by any means. The British had already lost their exclusivity in Bahrain and later in Saudi Arabia to the Americans and were not in the mood to lose yet another concession. They warned the Sheik in June 1932 that they "would be compelled to make a local oil war on the said company" if the concession went to the Americans.<sup>377</sup> The Admiralty objected to the Indian Office's suggestion of neutrality and impartiality in influencing the Sheik final decision and insisted on unequivocal support for the British interest.

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<sup>375</sup> Kuwait Memo, by Petroleum Department, F-81 82/1-V APOC Kuwait' (32r) (80/393) British Library: India Office Records and Private papers, IOR/R/15/1/622, in Qatar Digital Library, accessed 3 November 2019

<sup>376</sup> Letter from Sir John Cadman, Chairman of Anglo Persian Oil Company to Foreign Office, December 31<sup>st</sup>, 1932 (R/15/5/241)

<sup>377</sup> Letter from Lt-Col T C Fowle, Political Resident, Bushire to Secretary of State for Colonies, June 27<sup>th</sup>, 1933 (R/15/5/242)



The British Government accepted the Admiralty's view and was adopted as a new policy. The Political Resident was instructed to "point out to the Sheik that it is of the utmost importance that he should give his decision in favor of APOC." However, he should make it appear as if it was entirely the Sheik's decision, so "no ground is given to the Americans interest concerned for an accusation against HMG of having brought undue influence or pressure to bear upon the Sheik."<sup>378</sup> Though it was never verified, the representative of Standard Oil of California in Bahrain claimed that "the Sheik of Kuwait had been on signing the concession for EGS on several occasions when the British would display few warships of the town of Kuwait and maneuver a few airplanes over the city, thus frightening the Sheik into further hesitancy."<sup>379</sup>

Authorization for the Sheik to have direct negotiation with both APOC and ECG was granted in January 1933;<sup>380</sup> however, any agreement should include safeguards prescribed by the British Government that gave the British first option to the oil produced from Kuwait. As far as the British Government was concerned, Kuwait's concession was not only a business venture but a strategic imperative. However, from Sheik's perspective, the rivalry was mainly a commercial exercise as he verbally explained his auction process to APOC's Chairman John Cadman. His preferred

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<sup>378</sup> Confidential Letter to Under Secretary of State, Colonial Office, November 18<sup>th</sup> 1932, "F-81 82/1-V A.P.O.C. Kuwait" (110r) (238/393) British Library: India Office Records and Private papers, IOR/R/15/1/622, in Qatar Digital Library, accessed 3 November 2019

<sup>379</sup> Conversion with Mr. J O Nonland, American Legation, Bagdad regarding Kuwait Oil Concession with Standard Oil of California, December 20<sup>th</sup>, 1933

<sup>380</sup> Letter from Lt-Col. T C Fowle, Political Resident to Sheik of Kuwait January 14<sup>th</sup>, 1933, cited in Oil concession 1911-1953, V2 Kuwait, p. 69

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approach was bidding between the two companies rather than western-style negotiation.

The two competing proposals had already advanced the payment upon signature to 250,000 Indian Rupees, an equivalent of nearly 20,000 English Pounds from the original offer of 50,000-70,000 Rupees a few months earlier.

The British felt at a disadvantage in the bidding-up, in the manner described earlier by Sheik, with the very wealthy Gulf oil Company.<sup>381</sup> Instead of proposing higher bids, APOC Abadan approached the Sheik with the intrinsic merits of associating with APOC. They tempted the Sheik to join the "oil family of Britain, Persia, and Iraq," but more to the point, an explicit warning that Britain would blockade Kuwait's oil if the concession was not theirs. In his meeting with the Sheik in March 1933, APOC's Chairman had made the same threat with complete civility. He warned the Sheik that if Kuwait oil was in the hands of others, APOC would be compelled to take steps to hinder the marketing of Kuwait oil in conjunction with their marketing partners. The mounting pressure from both companies, the Political Resident, and perhaps the Sheik's own belief that he was gone too far in ignoring the British Government's obvious wishes, he decided in May 1933 to suspend all negotiation.<sup>382</sup>

He soon recognized the strategic and the political importance of the British presence in his concession and the implication of HMG's future attitude toward his relations with his powerful neighbors and his political standing. APOC requested the Political Agent in Kuwait to

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<sup>381</sup> Extract from Final Record of Meeting held at the Indian office to Discuss Oil in Kuwait and Qatar, December 11<sup>th</sup>, 1933, cited in Oil concession 1911-1953, V2 Kuwait, p. 146

<sup>382</sup> Confidential Personnel Letter from Elkington, Abadan to Mr. Hearn APOC London, titled "Kuwait", 19<sup>th</sup> June 1933 Ref EH/71 BP ArcRef: 70625

mildly remind the Sheik that his very existence was based on HMG's continuous support. APOC Abadan Director thought that the Sheik should be more anxious to please the British Government. He noted that "it is easy to see that his water supply at the mercy of Iraq, his pearling at the mercy of Persia and his trade at the mercy of Najd."<sup>383</sup>

The British realized the impending confrontation they had to endure. Both companies were resolved to win the concession by any means possible, backed by their governments.<sup>384</sup> The pause in the negotiation declared by the Sheik and the fear of losing yet another concession prompted APOC's Chairman to consider the wisdom and the desirability of presenting a joint concession with Gulf Oil to the Sheik of Kuwait.<sup>385</sup> Cadman succeeded in convincing the Mellon Oil Group, owners of Gulf Oil, to take up the proposed concession on a fifty-fifty basis<sup>386</sup> and form a joint company supported by the British Government.

Kuwait Oil Company (KOC) was formed in early February 1934, incorporated in London with the initial capital of 50,000 Pounds sterling equally owned, financed, and controlled. The equal partnership was "extend to holding, marketing, sale, and Directors." Upon HMG's insistence, the Company would always be a British company and would operate the concession out of London.<sup>387</sup> After a decade-old battle, the joint concession

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<sup>383</sup> Personnel Letter from Elkington, Abadan to Mr. Hearn APOC London, titled "Visit to Kuwait" February 14<sup>th</sup>, 1933, Ref EH/51 BP ArcRef: 70826

<sup>384</sup> Sir L Oliphant, Foreign office to APOC Chairman December 30<sup>th</sup>, 1932 (6830/121/91)

<sup>385</sup> Extract from Final Record of Meeting held at the Indian office to Discuss Oil in Kuwait and Qatar, December 11<sup>th</sup>, 1933, cited in Oil concession 1911-1953, V2 Kuwait, p. 146

<sup>386</sup> Sir L Oliphant, Foreign office to APOC Chairman December 30<sup>th</sup>, 1932 (6830/121/91)

<sup>387</sup> Notes of a Conversation between Mr. W Fraser, Deputy

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was a pragmatic conclusion as far as the British were concerned. The company stayed British, and it was to be managed through London's government bureaucracy. The British avoided the imminent possibility of losing the concession altogether to the formidable American competitors; it was, in the view of the British politicians, "the only mean of preventing the concession going to an American company outright."<sup>388</sup>

The decision of the competing parties and the formation of the new joint company in February 1934 pleased the Sheik and relieved him from the awkward position he found himself in. He would avoid antagonizing the British, gain the Americans' sympathy and support, and with some luck and diligence, he might conclude a superior commercial agreement. Although the joint concession secured for the British Government the right of preemption to the Kuwait oil in case of war as demanded by the Admiralty in October 1932, the British did come to accept the US creeping into their historical sphere of influence. It was finally time to start the negotiation with the Sheik.

Notwithstanding any understanding between the two companies, or with the Sheik, the lessons of World War One and the realization of the importance of excess to friendly oil were of paramount importance. The British Government was not ready to give up access to the oil produced from Kuwaiti fields, although it was no longer exclusively British. London insisted on a separate political agreement between HMG and KOC that gave them the right to preemption of all the crude and products in times

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Chairman, APOC and J C Walton and J G Laitwaite from Indian office on January 3<sup>rd</sup>, 1934, cited in *Oil concession 1911-1953*, V2 Kuwait, p. 162

<sup>388</sup> F C Sterling Petroleum Dept to Mr. C Parkinson Colonial Office, on Neutral Zone Between Najd and Kuwait, July 31<sup>st</sup>, 1933

of war or danger as judged by the Government and to increase the supply to the extent required.<sup>389</sup> They even insisted on constructing an oil refinery in Kuwait to produce fuel oil compatible with the British Admiralty requirements.

APOC insisted that there was no longer a place for the Eastern General Syndicate; they should withdraw entirely from the proceedings. According to the Abadan director, "it is undesirable that we should appear to be on a level with such a firm as the EGS."<sup>390</sup> The option to transfer Kuwait concession from Major Holmes and EGS to Gulf Oil in 1927 involved cash payment and royalty of one shilling per ton for any oil produced from Kuwait's wells over 750 tons per day. The royalty clause would have secured Major Holmes's legacy and personnel wealth if it was not for his sudden pessimism. After years of sheer conviction, contradicting adverse APOC's geological reports, and despite his long vision, cunning and foresight, he abruptly predicated that Kuwait oil finding could not be as rich as Bahrain fields. He settled with Gulf Oil in 1933 to terminate his agreement, including the one shilling per ton royalty for a one-time payment of 36,000 pounds, compared to an annual royalty of seven million pounds, had he retained his rights.<sup>391</sup>

Even with Kuwait's dire economic situation, and the desperate need for money, the Sheik was patient. He felt that he was at last in the bargaining position he had worked for since APOC's first offer a decade earlier. He was eager to reach the best possible deal despite his

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<sup>389</sup> Suggestion Points to be included in the agreement between HMG and KOC, cited in Oil concession 1911-1953, V2 Kuwait, p. 220.

<sup>390</sup> Confidential Personnel Letter from Elkington, Abadan to Mr. Hearn APOC London, titled "Kuwait", 15<sup>th</sup> August 1933 Ref EH/83 BP ArcRef: 70625

<sup>391</sup> Archibald Chisholm, The First Kuwait Oil Concession Agreement, A Record of the Negotiations 1911-1934, p. 189

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council's limited knowledge of the oil game and the fair price for the concession. The long history of offers by EGC and APOC, including the verbal offer made by John Cadman and the outcome of King Abdul Aziz's concession with the Americans, had provided him with at least a basis for his expectation.

The two companies settled to the business of advancing their joint offer. They were in the sweet spot of being the single bidder with a long history of dealing with the Sheik. But the ride was not as smooth as they had expected. The first proposal by the newly formed company was soon submitted to the Sheik and the Political Agent in Kuwait. With no competitors in sight, the joint offer was deliberately low; it was, as observed by APOC's Chairman, the Sheik would "perhaps put up with less attractive financial terms."<sup>392</sup> They offered an initial payment of Indian Rupees of RS. 200,000, and Rs 50,000 annually before production, with a royalty of Rs 2.12 per ton of crude produced, compared to APOC's Chairman verbal offer of Rs 400,000 upon immediate signature<sup>393</sup> he had made earlier.

The Sheik's refused to discuss the proposal with the company's representatives until, as he put it, "they talked reason and offered much more attractive terms." He realized that the possibility of another offer from the Standard Oil of California, seemingly showing signs of wanting to obtain a footing in Kuwait, would help him to maneuver his way with KOC. But the grant of a concession

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<sup>392</sup>Note of Interview regarding KOC concession between Cadman, Fraser, and L Kershaw January 4<sup>th</sup>, 1934, cited in Oil concession 1911-1953, V2 Kuwait, p. 172

<sup>393</sup> To make sense of the offer, it is an equivalent of an initial payment of 15,000 pounds sterling or approximately \$50,000, to be followed by an annual payment of 4000 Pounds, or \$12,000, while the proposed royalty was estimated at approximately 4 shillings (50 US cents) on a ton, or a mere 7 US cents a barrel of oil.

to Standard Oil was, as noted by the Political Resident, lurking with the danger of the Sheik losing his political control over his country.<sup>394</sup> Despite Sheik's frustration and the lure of a possible superior offer from the eager Standard Oil of California, there were never any indications that he was warming to their overture.<sup>395</sup> He informed KOC's negotiators of his terms, closer to where APOC and EGS had left off before their consolidated offer. He proposed payment "on signature" of Rs 550,000, 125,000 in subsequent years and royalty of Rs 3/12 per ton, export tax of 5 annas,<sup>396</sup> and the right to appoint a director on the company's board in London. KOC's board informed the Sheik that they could not accept his modification leading to a deadlock in their positions and suspending all negotiation.

The negotiation dynamic soon changed when KOC owners were blindsided by a better offer made in April 1934 by Traders Ltd, an entirely British-owned company. Without divulging their identity, the Sheik was able to be bolder in his negotiation and his demands. It was a well-kept secret for the next six months and became a guessing game whether it was a bluff and who was behind it. Though it was only identified by Holms in October that year through his contacts in Basra and revealed to APOC in December 1934 by HMG, Trader's offer provided the Sheik with the clout he needed to negotiate during the following eight months and to obtain his demands practically in full. The motive behind the new offer was disputed. Holms characterized it as a conspiracy; in his

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<sup>394</sup> Confidential Personnel Letter from Elkington, Abadan to Mr. Hearn APOC London, titled "Kuwait", 19<sup>th</sup> June 1933 Ref EH/71 BP ArcRef: 70625

<sup>395</sup> Confidential Personnel Letter from Elkington, Abadan to Mr. Hearn APOC London, titled "Kuwait", 19<sup>th</sup> June 1933 Ref EH/71 BP ArcRef: 70625

<sup>396</sup> Confidential Letter from Political Agent Kuwait, to Political Resident, Bushire, March 14<sup>th</sup>, 1934 (R/15/5/244)

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highly confidential letter to Gulf, he claimed that despite APOC's continuing ostensible partnership "were simultaneously and secretly double-crossing Gulf by having him offered better terms by, the fully British, Traders Ltd." APOC's representative Archibald Chisholm dismissed Holms's theory; he described Trades as a self-interest group of imperialist Members of Parliament and businessmen resenting sharing Kuwait concession with Gulf. Though the concealment of Traders' offer gave the Sheik an edge, it almost cost him dearly in his relationship with the British/Indian Government and the trust of the British officers in the Gulf.

The tough negotiation resumed in October 1934 after the summer break, but many issues remained unresolved. Both parties had agreed on most of the payments; however, the basis of royalty calculation on what is known as won and saved<sup>397</sup> and the deadlock over royalty payment continued. The Sheik declared that they had reached an impasse and gave the negotiators his final condition, stating that "further discussion of any sort will not result in any interest to either party."<sup>398</sup> The realization by KOC of the authenticity of a competing offer obliged their management to accept all changes, including "won and saved," appointment of government representative in KOC London office, and the monetary conditions the Sheik had negotiated for all along. The two sides settled on Rs. 475,000 upon signature and Rs. 95,000 annual payments before the declaration of oil production, a royalty payment of Rs. 3 and tax payment of 4 annes per ton. The seventy-year concession agreement

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<sup>397</sup> Won and saved is defined as oil produced and stored, rather than oil exported or sold in Kuwait

<sup>398</sup> Letter from the Sheik of Kuwait to KOC representatives, Major Frank Holms and Mr. A H T Chisholm with enclosed Alternatives for Financial Terms, November 6<sup>th</sup>, 1934 (R/15/5/245)



was signed at last just two days before Christmas of 1934 by the Sheik and KOC representatives, approved by HMG. (Appendix 7).

The identity of the Traders Ltd was only revealed to the British Government in November 1934 once Traders' application and offer for HMG's approval was submitted.<sup>399</sup> The wholly British company had been assembled in early 1934 by a group of companies involved in refineries, shipping, and marketing for the sole purpose of competing for Kuwait's concession. It almost caused a major political rift between HMG and the Sheik of Kuwait. The British Government considered the Sheik secret negotiation and his written promise, in early September 1934, to grant Traders his concession if they obtain HMG approval a breach of his and his predecessor's obligation and his explicit promised to KOC to hold off all activities until after summer. It was fortunate that by the time the Indian office and the Political Agency in Kuwait were in communication with the Sheik regarding his handling of undeclared negotiation with Traders, the concession was awarded to KOC, rendering further discussion irrelevant. It is remarkable that Holms's theory and his communication with Gulf Oil regarding Traders only came to APOC and Chisholm's notice in 1970 once the Political Agent, Lieutenant Colonel Dickson, letter to the Political Resident was published as part of British Archives.<sup>400</sup>

Kuwait's concession was modeled in line with those granted by the rulers of the Arabian shores of the Gulf. It featured a large geographic area and long concession life. It was, however, distinctly different in two aspects from those granted by the Persians in the early twentieth

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<sup>399</sup> Archibald Chisholm, *The First Kuwait Oil Concession Agreement, A Record of the Negotiations 1911-1934*, p. 54

<sup>400</sup> Archibald Chisholm, *The First Kuwait Oil Concession Agreement, A Record of the Negotiations 1911-1934*, p. 68, and 213

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century and the Iraqis in 1925. Both the Persian and the Iraqi concessions were agreed upon between the companies and the respective governments, while Kuwait's concession was purposely a contract with its Ruler. Though the first draft of the KOC commercial agreement sent for HMG review in January 1934 was, explicitly with the Kuwait Government, India Office in London deliberately requested "substitution of Sheik for Government" throughout the drafted document.<sup>401</sup> Payments were to be made in the ruler's account rather than the financial institutes. Moreover, the terms of Kuwait's concession were different in form from those of Iraq and Persia; the officer in the Iraq Petroleum Company, Stephen Longrigg, noted in his book, that Kuwait's concession was by far less generous; it was "trivial by comparison with those current in Iraq."<sup>402</sup>

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<sup>401</sup> Letter from J Walton, India Office London to Mr. W Fraser, APOC, January 30<sup>th</sup>, 1934, cited in Oil concession 1911-1953, V2 Kuwait, p. 239

<sup>402</sup> Stephen Longrigg, *Oil in the Middle East Its Discovery and Development*, Oxford University press, p. 111

## **KUWAIT IN THE TIME OF BRITISH EMPIRE**

## 8 The Pivotal Decade

*Most of what is written on the 1938-39 disturbances and the confrontation between the Sheik and the merchants comes from the British correspondence and records, from the biased Iraqi press, and the unpublished notes of Mr. Suleiman Al Adsani, an active member of the movement, and an elected member of the Council. Many of the events and their sequences are, to large extent matching, however, the interpretation of the cause, motivation, and intention of those involved are, at times, contradictory and controversial.*

The 1930s were a momentous decade in Kuwait's development. It was marked by two significant historical events that steered the future direction of the country. The discovery of oil changed the livelihood of the people, both rich and poor, and ended the ruler's historical dependency on taxes. While the confrontation in 1938-39 between the Ruler and the merchants, though brief, marked the first spark that led to the eventual founding of democratic institutions in the country, culminating in the parliament election and the writing of the Constitution in the early 1960s.

It was a decade full of paradoxes, the poverty of the ordinary people, while the oil concession was already providing wealth to those in power even before the discovery of oil. Democracy and Government institutions were being established, but favoritism and nepotism were on the rise. Even at the time of signing of the concession in December 1934, torrential rain had torn down the mud houses resided by the poor, forcing many to be relocated to mosques and temporary tents that became extended homes for some.

The long years of desert blockade and the demise of the pearl industry had, by the early 1930s, taken its tolls on Kuwait's population. The economic stagnation that followed was detrimental to all; the affluent merchant families could not meet their debt to Sheik Khazel (Sheik of Muhmmara) and were ready to surrender their houses and properties in need of cash.<sup>403</sup> Meanwhile, the poor lost their low-paid job, and their homes were eventually confiscated in lieu of the debt to the boat owners.

Nonetheless, Najd's boycott had its silver lining. Practically all trade activities moved north to Basra; most Kuwait's business ventures and deep-hulled ships became involved in transiting wet dates from the massive Iraqi plantations to the markets along the Gulf shores, India, Aden, and the east coast of Africa. The shift was evident in the increase of intermarriage between men and women of Kuwait and southern Iraq and the rise of Kuwait's merchants' kinship and business activities with Basra. The use of the Iraqi school curriculum in Kuwait's schools until 1943 and the regular circulation of the Iraqi newspapers and journals in Kuwait strengthen Kuwait's cultural dependence upon Iraq.<sup>404</sup> A new road was built in 1925

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<sup>403</sup> H. V. Winstone, *Zahra Freeth, Kuwait: Prospect and Reality* p. 90, Ruskin House Museum Street, London

<sup>404</sup> Saeed Hashim, *The Influence of Iraq on the Nationalist Movements of Kuwait and Bahrain 1920-1961*

## THE PIVOTAL DECADE

connecting Jahra in Kuwait to southern cities in Iraq through a 50 years concession granted to an Iraqi merchant helped to further contact with Basra and improve the ever-increasing transportation and communication between the two countries.<sup>405</sup> The widespread contact with Basra's merchants and the elites (Aayans) of Bagdad was instrumental in entrenching Kuwait's progressive attitude and the new political outlook. The interaction inspired the merchants to demand political and legislative reforms and a better and more inclusive administration of the country. They were impressed with Iraq's elected and lively Parliament, Constitution, Governmental ministries, organized police, radio stations, newspapers, and literature. They viewed the administration and institutional progress made in Iraq after the war as more advanced than Kuwait's stagnant institutions.

Demands for change were invigorated with the rise of Arab Nationalism, prevalent among Iraq's urban population. The younger generation of the merchants' families was attracted by the Pan-Arabism, extensively covered in the widespread Egyptian and Iraqi newspapers and media, and rooted, by the mid-thirties, in the attitude of the Government of Iraq. The Ruler and the more conservative merchants were not so impressed and were not so keen on change. The Political Agent observed that most of "the open criticism of the administration, although growing, had been confined to certain notables."<sup>406</sup>

The classic power balance between the two powerhouses: The Ruler and the merchants, played out the full circle in the 1930s. The events that led to the inevitable unrest in 1938 and 1939 were part of a long and mostly balanced relationship between the twin powers

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<sup>405</sup> Saeed Hashim, *The Influence of Iraq on the Nationalist Movements of Kuwait and Bahrain 1920-1961*

<sup>406</sup> Administration of Kuwait, July 8<sup>th</sup>, 1938 (R/15/5/205)

that dominated Kuwait's politics since its inception. The relationship between the two, though cordial, reflected the historical rivalry for wealth, status, and influence and was not devoid of occasional tension. The need to administer the town and build schools and health service spurred the merchants to assert themselves in the early 1930s, though modestly, but more constructively and charitably. The friendly relationship encouraged the merchants to propose a share in the administration of the town by means of elected functional councils funded through a small increase in taxes, not exceeding half a percent.

The first institution was the Municipality Council elected in 1931, enthusiastically pursued by the merchants to improve the town's roads and markets, soon followed by an Education Council in 1936. Both were initiated by the merchants, approved by the Sheik, and financed by an increase in Custom Tax. Though the tax burden would eventually be passed to the consumers, the election of the council's members was confined to "merchants only," a small number of citizens, not exceeding 200 constituents selected from amongst a population of over 60,000 inhabitants. In both elections, limited voting was justified by the merchants on the fact that it was their initiation and their funding that supported the activities of the new council. Curiously enough, with minor exceptions, both boards were mostly represented by the same members, whether elected by the merchants or appointed by the Sheik.

The new Education Board managed to establish proper schooling to replace the prevailing primitive home education. They engaged teachers from the more advanced Arab countries to replace the widespread neighborhood teachings. However, the short-lived Board was dissolved in the same year of its formation, replaced by new members appointed by the Sheik, causing

members of the Municipality Board to resign in sympathy. Despite the board's suspension, the momentum for a broader democracy and some form of an elected council within the existing structure of Sheikdom was accelerating; the demand for collective governess was on the rise.

Signs of the explosive mix of oil and politics surfaced as soon as the concession was signed on December 23<sup>rd</sup>, 1934. Kuwait Oil Company's annual payments to the Sheik were destined to place the well-defined relationship between the two powerhouses in jeopardy and trigger a conflict to control the new resource and wealth. It was bound to free the Sheik's government from the merchants' taxes and, in turn, reduce the merchants' clout and distanced them from the Ruler. The Sheik was unwilling to relinquish the looming economic and political freedom, while the merchants were not ready to surrender their role and the opportunity for their own prosperity. The anticipated accumulation of wealth from the oil concession by the Sheik in a faltering economy and the desperate attempt by the merchants to salvage the decline in their long-held financial powers was bound to lead to anti-government agitation and unrest.<sup>407</sup>

General discontent with the Sheik's administration, widespread poverty, a sense of prevailing injustice, and the small allocation of oil income "to the State or Municipality for public services"<sup>408</sup> soon galvanized the opposition cause. By early 1938, anti-government leaflets demanding reforms, better health and education services, and more involvement in the internal and financial policies were being circulated. Petty problems and taxi drivers' strike led quickly to provocation, but the excessive

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<sup>407</sup> Jacqurline Ismael, *Kuwait Dependency and Class in Rentier State*, p 73, University Press of Florida

<sup>408</sup> Political Agent, Kuwait to Political Resident, Bushire, March 19<sup>th</sup>, 1938 (R/15/5/205)



beating, humiliation, and imprisonment of a merchant by the government forces in March 1938 and the threat to arrest others crystallized the opposition, quickly escalated into a confrontation. "The beating became a defining moment in the Majlis movement."<sup>409</sup>

The local British representative was soon involved. The Political Agent expressed his sympathies with the reform movement and his discontent with the beating. He was authorized in April 1938 to warn the Sheik and encourage him to adopt a more liberal attitude. T. C. Fowle, the Political Resident in the Gulf, was clear in his message; he noted that "His Highness will appreciate that since in these days popular democratic movements exist in most countries if not all, one should now be starting at Kuwait. Experience has shown that the best way to deal with such movements is not mere repression, which cannot be continued indefinitely as the movement gets stronger, but the maintenance of law and order combined with sympathetic guidance of the movement into useful channels of activity. His Majesty's Government feels that the risk of a repetition of the present unfortunate incident would be considerably lessened if His Highness would associate himself more both with his family and his people in his administration and in giving this advice, His Majesty's Government takes into account that the normal practice of government amongst Arab peoples from time immemorial is for the latter to be associated in some form or other with their Shaikh in the affairs of the state."<sup>410</sup>

In 1936, A small group of merchants formed an underground movement, Al Kutlah Al Shabab Al Wataniya (The National Youth Bloc), in the aftermath of their

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<sup>409</sup> John Hayhurst, Gulf History Specialist, British Library, Power and Politics, Kuwait 1900-1949 Qatar Digital Library

<sup>410</sup> FO 371/21832/E1832/1642/91 Note by Sir T. Fowle dated April 25<sup>th</sup>, 1938

intense contact with a nationalist group in Iraq.<sup>411</sup> The core of the nationalist movement began with twelve members and grew to about 200 followers. The majority were in their 20's, educated upper class with a minority of middle and working-class who were dissatisfied with the repressive reign of the ruler's entourage.<sup>412</sup> Their objective was principled around the demand for an elected legislative council in Kuwait that can assume all the executive powers to administer the country within the framework of the ruling family.<sup>413</sup> They initiated their campaign for reform by circulating leaflets prepared in Basra<sup>414</sup> and turned to the Iraqi media to promote their cause. Al-Sajil became the mouthpiece for the movement, it publishing the most articles written by the reformist, but was soon banned from circulating in Kuwait. The first petition was distributed in June, called for "a non-violent confrontation on behalf of the citizen of Kuwait and for a grant of 50,000 Rupee from oil revenues to be spent for the sole purpose of town improvements, by way of annual contribution to the Municipality."<sup>415</sup>

The Iraqi newspaper Al Sajil published the new party's demands and indulged in criticizing the Sheik and his government. It attacked Kuwait's degraded condition and demanding due improvement; the editor suggested

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<sup>411</sup> Saeed Hashim, *The Influence of Iraq on the Nationalist Movements of Kuwait and Bahrain 1920-1961* p.74

<sup>412</sup> Al-Saqr, J., *Harakat al-majlis* (Arabic), The Council of 1938-1939, Lecture delivered in the Sociologists Society in Kuwait, cited in Saeed Hashim, *The Influence of Iraq on the Nationalist movements of Kuwait and Bahrain 1920-1961*, p.89

<sup>413</sup> Al Adsani Notes (Arabic), p. 15

<sup>414</sup> F.O. 371/21832 Confidential letter July 18<sup>th</sup>, 1938 from Political Resident, Bushire to the India Office, London

<sup>415</sup> File 45/23 I (D 140) Kuwait Reform'(57r) (131/455). British Library: India Office Records and Private Papers, IOR/R/15/1468, in Qatar Digital Library [https://www.qdl.qa/archive/81055/vdc\\_100023666188.Ox000083](https://www.qdl.qa/archive/81055/vdc_100023666188.Ox000083) (accessed 12 November 2019)

constructing new schools and a hospital, allowing entry of all Arab nationals, and denying access to all others.<sup>416</sup> Other suggestions were soon followed in Al Naas newspaper, recommending proper administration of the Customs revenue, the appointment of a Director of General Finance and a "Security Department to be distinguished by special badge and responsible for the general supervision and town security."

The Baghdadi newspaper Al-Istiqlal accused Kuwait of distancing itself from the rising Arab Nationalism. It articulated Iraq's government view that "Iraq is anxious for Kuwait to join in the general awakening movement which has taken place in the majority of the Arab countries," and claimed that "Iraq is in position to turn the backward principality of Kuwait into a prosperous country" through assistance in financial and education matters from the Iraqi Government.<sup>417</sup> On the extreme end, the mutasarrif (Governor) of Basra insisted that the annexation of Kuwaiti territory to Iraq would be a practical solution to the long standing-problems-and also would relieve Kuwait from dictatorship.<sup>418</sup>

Feeling the heat, the Sheik visited Bagdad in May 1938 in the hope of easing the continuous media assault, but it was in vain. Instead, the Iraqi media elevated their daily commentary in the papers and nightly radio broadcasts to

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<sup>416</sup> File 45/23 I (D 140) Kuwait Reform'(1er) (18/455). British Library: India Office Records and Private Papers, IOR/R/15/1468, in Qatar Digital Library [https://www.qdl.qa/archive/81055/vdc\\_100023666188.Ox000013](https://www.qdl.qa/archive/81055/vdc_100023666188.Ox000013) (accessed 11 November 2019)

<sup>417</sup> File 45/23 I (D 140) Kuwait Reform'(20r) (55/455). British Library: India Office Records and Private Papers, IOR/R/15/1468, in Qatar Digital Library [https://www.qdl.qa/archive/81055/vdc\\_100023666188.Ox000037](https://www.qdl.qa/archive/81055/vdc_100023666188.Ox000037) (accessed 11 November 2019)

<sup>418</sup>F.O. 371/21832 Confidential letter July 18th, 1938 from Political Resident, Bushire to the India Office, London

an open demand for union between the two countries. The media never ceased "to refer to Kuwait as being an integral part of Basra Liwa."<sup>419</sup> The intensity and the unceasing assault advocated the British authorities in Bagdad to request the Prime Minister to end their attacks since Britain had a treaty obligation with Kuwait.<sup>420</sup>

In a letter on June 28<sup>th</sup>, 1938, the Movement petitioned the Sheik to fulfill his 1921 pledge and requested his blessing for the "formation of an elective legislative council composed of the country's free citizens to organize its affairs."<sup>421</sup> To the delight of those present, the Sheik agreed in principle,<sup>422</sup> perhaps encouraged by the Political Resident suggestion made only a few days earlier.<sup>423</sup>

Despite the widespread sympathy for the movement, the leaders of the National Bloc chose to conduct the election instantaneously, limiting the election to a handful of their constituents. They prepared a list of 320 voters limited to those families that were the early settlers of Kuwait<sup>424</sup> and

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<sup>419</sup>File 45/23 I (D 140) Kuwait Reform'(50r) (117/455). British Library: India Office Records and Private Papers, IOR/R/15/1468, in Qatar Digital Library [https://www.qdl.qa/archive/81055/vdc\\_100023666188.Ox000075](https://www.qdl.qa/archive/81055/vdc_100023666188.Ox000075) (accessed 12 November 2019)

<sup>420</sup> File 53/99 II (D 149) Kuwait Reform'(12r) (26/444). British Library: India Office Records and Private Papers, IOR/R/15/1/549, in Qatar Digital Library [https://www.qdl.qa/archive/81055/vdc\\_100024192325.Ox000023](https://www.qdl.qa/archive/81055/vdc_100024192325.Ox000023) (accessed 13 November 2019)

<sup>421</sup> Al Adsani Notes (Arabic), p. 17

<sup>422</sup>Al Adsani Notes (Arabic), p. 17, also Letter from Political Agent, Kuwait to Political Resident, Bahrain June 29th, 1938, File 45/23 I (D 140) Kuwait Reform'(57r) (131/455).British Library: India Office Records and Private Papers, IOR/R/15/1468, in Qatar Digital Library [https://www.qdl.qa/archive/81055/vdc\\_100023666188.Ox000083](https://www.qdl.qa/archive/81055/vdc_100023666188.Ox000083) (accessed 12 November 2019)

<sup>423</sup> Political Resident, Bushire to Sheik Ahmad Al Jabar, Ruler of Kuwait, June 18th,1938 (R/15/5/205)

<sup>424</sup> Al Adsani Notes (Arabic), p. 18

held an election to choose a Council amongst their ranks. In its infancy, self-interest prevailed, and the opportunity for an inclusive and popular democracy was lost. Instead, the Council was dominated by the notables and the elites. From its inception, most of the population were deliberately secluded for fear of competing movements, obviously contradicting the movement's legitimate demand for public participation in governing the country.

Fourteen members Council was elected, dominated by founding members of the National Bloc and presided over by the Crown Prince Sheik Abdulla Al Salam. The first order of business was the preparation of the "Law governing the power of the Council and their responsibilities." Despite Sheik's initial reluctance, he approved the new law on July 9<sup>th</sup>, 1938, under public pressure (Appendix 8). Thereupon the first elected national Council came into being on the Arabian littoral.<sup>425</sup> The first article of the document, "The people are the source of power," was inspiring and was repeated years later in the 1962 Constitution. The Political Agent expressed his impression in the following manner.

"I understand that a Dastoor (Constitution) is being prepared by the Majlis (the Council). It consists of a preface and five parts mostly derived from the Egyptian Constitution. The preface will contain the description of Kuwait's flag, that Kuwait is the capital of the state, that the state cannot be divided into parts or territories. That all treaties and agreements with Great Britain will be respected and that Kuwait is under British protection. The five parts are about the equality of all Kuwaitis, the powers of the Majlis, the President, the Magistrates, the Qadhis, etc. A clause is to be included empowering the Majlis to make amendments and alterations within a

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<sup>425</sup> Al Adsani Notes (Arabic), p. 22, also Political Agent, Kuwait to Political Resident Bushire, July 12<sup>th</sup>, 1938 (R/15/5/205)

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period of one year from the first publication of the Dastoor. It is said that this is to be included as a precaution in case His Majesty's Government may object to some points or may make some suggestions calling for amendments. I also understand that the Majlis intends to adopt the Ottoman Majallah of Islamic law, which is now in force in Iraq and Syria. There will also be a Statute Book for forming new laws that are not included in the Sharia Law."<sup>426</sup>

The document gave the new council extensive power; not only it was entrusted with legislating laws to streamline the country's finance, courts, education, and health, but it gave the President of the Council in Article 5, "the executive authority of the State," and the authority over the Court of Appeal. It essentially transferred the monopoly of power that had at its core the demand for fiscal management and an annual budget from the Sheik's hands into the Council's domain. Absolute power was shifted from the ruler's grip in the summer of 1938 into oligarchy through an "all-merchants" National Council elected by a selected constituent. The oligarchic merchants with financial leverage momentarily exceeded their traditional role and influence.

The Political Agent in Kuwait, Captain de Gaury's assessment of the elected members, was positive. He wrote that "the Council is composed of experienced men, and the result of their deliberation will lead to the administration of the territory on more efficient lines."<sup>427</sup> Despite the intention of the merchant's community and the Council for the Sheik to continue as Head of the State, the assumption of total control of all three branches by a small group of the merchants was either an oversight of the problems associated with an oligarchic government, lack

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<sup>426</sup> FO 317/21833 Note by Political Agency interpreter

<sup>427</sup> Political Resident, Bushire to Mr. R T Peel, India Office, August 6<sup>th</sup>, 1938 (R/15/5/205)

of experience or perhaps predetermined desire "to control of the State's income."<sup>428</sup> The Political Resident described the peaceful change as a "Coup d'état without firing a shot. The ruler's role was reduced to that of a nominal head of the Sheikhdome; the council was given insuperable power to ratify treaties, concessions, monopolies, and agreements."<sup>429</sup>

Arab newspapers, and more enthusiastically the Iraqi paper *Sajil* congratulated the Kuwaiti people on their important and popular achievement.<sup>430</sup> The most significant article supporting the movement was the Iraqi Newspaper *al-Istiqlal*; it stated, "The new movement in Kuwait gives pleasure and gratification to every Arab because it will yield results most beneficial to Kuwait's inhabitants themselves. Perhaps they realize the happy future awaiting them if the present movement is maintained and is directed towards co-operation with Iraq. Such an idea has often been in the minds of Kuwait's youth and has been received with approbation and support in Arab quarters. Iraq is in a position to turn the backward principality of Kuwait into a prosperous, progressive, and civilized country." Perhaps the writer's conclusion summarized Iraq's perpetual demand; he stated that "Having regard to its geographical and commercial position Kuwait if annexed to Iraq, would become a junction of international communications and an excellent port."<sup>431</sup>

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<sup>428</sup> Political Agent, Kuwait to Political Resident Bushire, July 12<sup>th</sup>, 1938 (R/15/5/205)

<sup>429</sup> F.O. 371/21832 Confidential letter July 18<sup>th</sup>, 1938 from Political Resident, Bushire to the India Office, London

<sup>430</sup> *Al-Sajil* (Arabic newspaper issued in Iraq) no 102 July 8<sup>th</sup>, 1938

<sup>431</sup> *Al-Sajil* (Arabic newspaper issued in Iraq), cited in Saeed Hashim, *The Influence of Iraq on the Nationalist movements of Kuwait and Bahrain 1920-1961*

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The British authorities viewed the Council "as an essential feature of Kuwait's administration," and its formation was in "conformity with public opinion that would lead to the increase of prosperity of Kuwait."<sup>432</sup> They advised the Sheik to "help his Council to work along the right lines when necessary sitting with them."<sup>433</sup> However, the British were not ready to dilute the Sheik position as the supreme power and the custodian of the agreements with the H.M. Government. The Council briskly assured the Political Agent of their commitment to all agreements and their desire to "strengthen the confidence of his Majesty Government in their devotion to the British Government."<sup>434</sup> The British authorities were clear "that despite the "Inaugural Law" they regarded the Sheik as the symbol of authority in Kuwait, and was officially responsible for Kuwait's relations with his Majesty's Government."<sup>435</sup> They insisted that the Sheik was accountable for the oil concession with the Anglo-American Company, foreign and defense matters, and was liable for the arms the Sheik acquired to stay under his control.<sup>436</sup>

Signs of the hostile situation were developing in early August between the Sheik and the Council, to the extent that the Political Resident was obliged to request the presence of a British sloop in the waters of Kuwait just in case troubles flared.<sup>437</sup> The Council convinced the Sheik

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<sup>432</sup> Confidential letter Political Resident, to Mr. R T Peel, India Office, August 22<sup>nd</sup>, 1938 (D.O. O/554/ of 1938)

<sup>433</sup> Telegram from Political Agent, Kuwait to Political Resident Bushire, August 10<sup>th</sup>, 1938 (R/15/5/205)

<sup>434</sup> Political Agent, Kuwait to Political Resident Bushire, July 12<sup>th</sup>, 1938 (R/15/5/205)

<sup>435</sup> Confidential letter Political Resident, to Mr. R T Peel, India Office, August 22<sup>nd</sup>, 1938 (D.O. O/554/ of 1938)

<sup>436</sup> Political Agent to the Ruler of Kuwait, August 6<sup>th</sup>, 1938 (R/15/5/205)

<sup>437</sup> Telegram from Political Resident to Senior Naval Officer,



toward the end of August 1938 to hand over state rifles, guns, ammunition, and the State Reserve depot in the cellars of Naif Palace in the middle of the town as part of security arrangement and training. The new government security apparatus collected a mechanized unit of six cars armed with old World War One guns<sup>438</sup> and took over an estimated 4500 modern rifles and half a million rounds of ammunition. The power of the Council was naturally entrenched once they took over the arms reserve from the government control, but it filled the Sheik with resentment and intensified mutual mistrust and adversary. The British authorities in the Gulf reacted with anger, viewed loss of control over arms supplied by the British Government as a breach of the Sheik's commitment.

In a short period of its existence, the Council's improvements were impressive. They introduced 31 new reformatory laws and restructured tax laws that included the cancellation of the pearl fishing tax. They widened many roads and opened schools, including one exclusively for girls. The Council forcefully abolished monopolies, to the dismay of influential owners, and reverted some concessions granted unfairly to some citizens to the government hold and allocated its returns to be used for health and security services.<sup>439</sup> The Council replaced tribal guards (fadiwis) with their own recruited youth League, or "Shabiba," replicating the forces in Iraq "to police the town, guard the arsenal, and to put down any disturbance inside the town."<sup>440</sup>

The Council managed to distinguish between the privy purse of the Ruling Family and the public budget. To ease

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Persian Gulf Division, August 11<sup>th</sup>, 1938

<sup>438</sup> KOC General Summary of Events for July and August, BP ARC 67031, P2 (British Petroleum Archive)

<sup>439</sup> Al Adsani Notes (Arabic), p. 23

<sup>440</sup> KOC General Summary of Events for July and August, BP ARC 67031, P6-8 (British Petroleum Archive)

possible tension with the Sheik, the Council agreed to increase the salaries of the ruling family and allocated 15000 pounds of the total revenue of almost 20000 pounds for the salaries of the Ruling family.<sup>441</sup> However, confrontation over oil concession income made any possible reconciliation out of reach.

In spite of improvements, the dissent of those excluded from the Council was on the rise, including the Sheik's family, followers and tribesmen, some merchants, and the Shia community.<sup>442</sup> The Council's impatience with any defiance intensified the situation, polarized the social structure, and weakened the national unity. The Political Agent described the condition of those who requested a British nationality, as being "liable to be tyrannically treated, by the notices posted by the Majlis (the Council) in the Bazaar saying that their property is liable to be confiscated, and they have no representative on the Council or the Municipality." The young police force marched through the Bazaar intimidating who might deplore their rule; eventually posting notices "that those who challenge the authority of the local Government would be properly dealt with."<sup>443</sup> The governing Council was resolute to rid the town of non-Arabs under any pretext. Their action was eye-witnessed by a Kuwaiti activist, Dr. Ahmad Al Khateeb, and vividly described in his book written in Arabic:

"It is hard to forget the scene of some miserable and despairing families, men, women, and children, being transported from near my home in open carts as a herd of

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<sup>441</sup> Al Adsani Notes (Arabic), p. 26

<sup>442</sup> Note on Kuwait situation prepared for the Political Resident, October 1<sup>st</sup>, 1938 (R/15/5/205)

<sup>443</sup> KOC General Summary of Events for July and August, BP ARC 67031, P6-8 (British Petroleum Archive)

cattle in the first ship to Iran under the context of national security.”<sup>444</sup>

The Shia community posed the most serious obstacle to the council. Their conspicuous absence from the Council, despite the British urging, became a source of contention in Kuwait’s small society. The heightened Arab nationalistic sentiment in Iraq was soon reflected in the reformist’s attitude and opposition toward the Persians. The Council refused the suggestion made by the British political representative in the Gulf, Mr. T. C. Fowle, for a broader electorate and more inclusive representation in the new Council once formed. In a meeting in mid-October 1938, with members of the Council, Fowle proposed a single Shia representative on the Council as an opportunity to “letting off steam and as a safety valve.” Mr. Suleiman Al-Adsani, a Council member, refused; as he put it, “he preferred to take away the fuel rather than keeping the safety valve close.”<sup>445</sup>

The Shia community was estimated in 1938 to be about 18,000 (27.70% of Kuwait’s total population) originated from the neighboring countries. The Political Resident estimate was even higher (over 60,000 citizens.<sup>446</sup>) Those who immigrated from Iran were numbered at about 10,000 citizens, while the remaining came from Al-Hasa province in Saudi Arabia, Bahrain (specialized in shipbuilding), and Iraq. Up to the Council’s founding, the community had lived peacefully and been a legitimate part of the Kuwaiti Society; many were merchants and occupiers of various professions. Some had even participated in the activities of the movement before the

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<sup>444</sup> Dr. Ahmad Al Khateeb, *From Emirate to a State, Memories of Nationalist efforts* (Arabic), Arab Cultural Center

<sup>445</sup> Political Resident to J P Gibson, India Office, October 19<sup>th</sup>, 1938 (R/15/5/205)

<sup>446</sup> Saeed Hashim, *The Influence of Iraq on the Nationalist Movements of Kuwait and Bahrain 1920-1961*p.112

formation of the Legislative Council.<sup>447</sup> However, the absence of a Shia representative on the Council created fears of repression among some members of their community. The Council's legislation consolidated these fears against illegal emigration<sup>448</sup> once several Shia were deported<sup>449</sup> or threatening with deportation notice for anyone who seeks foreign nationality. The Shia's sympathy with the ruler motivated the council to reduce their number through expulsion, while the Shia community considered the movement as racist.

Unlike the Council attitude, the Government was accommodating. In early 1939 the Ruler permitted the Shia to develop their school and offered 2,000 Rupees yearly contributions, while Sheik Abdulla al-Salam contributed 500 Rupees to the same project.<sup>450</sup>

Though the Council's declared policy was supportive of the sheik in conducting the State business, the British assessment that any genuine rapprochement between the two sides was far off.<sup>451</sup> The relationship became more strenuous in October 1938 once the Finance Minister appointed by the Council demanded that the next oil concession payment due in December should be paid directly to the Council rather than the customary route. In accordance to the Political Agent, the Sheik "had promised that he would at the end of the year transfer the Kuwait

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<sup>447</sup> Saeed Hashim, *The Influence of Iraq on the Nationalist Movements of Kuwait and Bahrain 1920-1961* p. 113

<sup>448</sup> Saeed Hashim, *The Influence of Iraq on the Nationalist Movements of Kuwait and Bahrain 1920-1961* p. 113, quoting Al-Adsani p.32-33

<sup>449</sup> Al-Saqr, J., *Harakat al-majlis* (Arabic), *The Council of 1938-1939*, Lecture delivered in the Sociologists Society in Kuwait, cited in Saeed Hashim, *The Influence of Iraq on the Nationalist movements of Kuwait and Bahrain 1920-1961*, p.89 131,

<sup>450</sup> Al-Sajil (Arabic newspaper issued in Iraq), cited in Saeed Hashim, *The Influence of Iraq on the Nationalist Movements of Kuwait and Bahrain 1920-1961*

<sup>451</sup> Al Adsani Notes (Arabic), p. 42

Oil Company's cheque of 7000 pounds to the Council." The Sheik noted, with resentment, that "all the main resources of the country will now go into the Council's hand."<sup>452</sup>

The confrontation between the Sheik and the Council was inevitable. The Sheik demanded, perhaps encouraged by the British local authorities, the return of the arsenal to his control, but the Council refused to hand over the arms depot accusing the Government of their intent to dissolve the six-month-old Council, or at least curtail their extensive power. The Council was resolved to make a stand. Both sides appealed for support from the Political Agent but were told that it was, as far as the British Government's concern, an internal affair.

The situation was quite serious; both sides were ready for a showdown. By mid-December 1938, Sheik's Bedouin army was already performing war dances in the palace yard in preparation for an attack while the Council police and the military entrenched in their position prepared for any eventualities. By midday, the tension had grown to a dangerous level, but armed clashes were barely averted through intense negotiation and arbitration between the two camps. The chief arbitrator, Sheik Abdulla Al Salam, commuted throughout the day in his car, flying a white flag on the dirt road between the Sheik's Palace and the Council with the hope of concluding a peaceful settlement. Arbitration finally succeeded once the Sheik of Kuwait, backed by his desert army, issued an ultimatum to the Council to surrender the Citadel. The Ruler and his family managed by the evening to regain their arsenal in a strong-arm manner supported by his desert guards.<sup>453</sup>

The Ruler dissolved the Council on December 17<sup>th</sup>, only six months after its formation, and a fresh election was

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<sup>452</sup> Political Agent, Kuwait to Political Resident, Bahrain, August 17<sup>th</sup>, 1938 (R/15/5/205)

<sup>453</sup> Captain G S de Gaury, Political Agent, Kuwait to Political Resident, Bushire, December 22<sup>nd</sup>, 1938 (R/15/5/206)

organized almost immediately with broader participation. Once again, the 20-seat Council was dominated by National Bloc, driven by overwhelming sympathy and mounting national sentiment. This time the ruler stripped the Council from its power mandate that the old Council enjoyed. A new constitution was drafted that gave the Sheik the power of veto and relegated the Council to the traditional advisory role. In a secret message, the Political Resident noted that the new "constitution is reasonable enough in itself and satisfactory from our point of view, but briefly, it turns council from an executive to an advisory one."<sup>454</sup> The newly elected Council, though never met, understandably repudiated the new doctrine and refused to relinquish their acquired power and authority. Rumors were soon circulating that Iraq was ready to use armed force to annex Kuwait. The Baghdadi newspaper noted on February 17<sup>th</sup> that "Iraq cannot stand aloof and inactive vis-a-vis the present situation which is about to ruin this Arab principality."<sup>455</sup> The persistent provocative broadcast from Bagdad radio and the "pro-Iraq activities of some of the Council members"<sup>456</sup> finally force the Sheik hands into dissolving the new Council on March 7<sup>th</sup>, 1939.

Unlike the first time, the standoff was marred by violence. Disturbance erupted when a citizen was arrested while inciting open revolt against the Sheik during his public speech. The conflict with the new Council ended with the execution of the speaker, fatalities during his arrest, imprisonment of five members of the Council, and the flight of the remaining members to Iraq. The incidents of the 10<sup>th</sup> March ended the 1930's nationalist reform movement. It was perhaps with luck and much prudence

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<sup>454</sup> FO 371/23180, Secret Telegram dated February 1939, from Political Resident to Secretary of State for India.

<sup>455</sup> FO 371/23181, Translation of an article in Al Istiqlal

<sup>456</sup> Telegram from Political Agent, Kuwait to Political Resident, Bushire, March 7<sup>th</sup>, 1939 (R/15/5/206)

that further bloodshed was avoided. The Sheik and his family regained Government control and the town's administration. They ended the short-lived oligarch rule; this time, the Sheik was ready to rule with more vigor,

Relation with Iraq continued to be tense. King Ghazi and his Prime Minister were contemplating sending the Deputy of Basra as a messenger to the Sheik in March 1939 to ease the ill feelings the press and broadcast had created during unrest in Kuwait. The Sheik was not in the mood to meet the King's messenger, and the British were "most emphatic about letting the Sheik go to Bagdad."<sup>457</sup> Contrary to Bagdad's friendly gestures, incursions by the Iraqi forces into Kuwait continued; it was even reported that the Iraqi Prime Minister was instructed in February 1939 by King Ghazi to discuss Kuwait's annexation with the British Government during his visit to London.<sup>458</sup>

The British were in an awkward position to carry out their obligation toward Kuwait if Iraq used force or if Kuwait had requested help in handling the Iraqi in case of their attack. The situation was described by the authorities in the Indian Office as "paradoxical and unfortunate if the political Resident had to call on the Royal Air Force out of its base in Habyana in Southern Iraq with whom responsibility for the defense of Kuwait rests, in order to repel an invasion of Kuwait territory by Iraqi forces."<sup>459</sup>

<sup>457</sup>File 53/99 II (D 149) Kuwait Reform'(166r) (342/444). British Library: India office Records and Private Papers, IOR/R/15/1/549, in Qatar Digital Library [https://www.qdl.qa/archive/81055/vdc\\_100024192326.Ox00008f](https://www.qdl.qa/archive/81055/vdc_100024192326.Ox00008f) (accessed 13 November 2019)

<sup>458</sup>File 53/99 II (D 149) Kuwait Reform'(8r) (26/444). British Library: India Office Records and Private Papers, IOR/R/15/1/549, in Qatar Digital Library [https://www.qdl.qa/archive/81055/vdc\\_100024192325.Ox00001b](https://www.qdl.qa/archive/81055/vdc_100024192325.Ox00001b) (accessed 13 November 2019)

<sup>459</sup>File 53/99 II (D 149) Kuwait Reform'(173r) (356/444). British Library: India office Records and Private Papers, IOR/R/15/1/549, in Qatar Digital Library

King Ghazi's semi-mysterious death on April 5<sup>th</sup>, 1939, ended an era of claims against Kuwait and put an end to his radio attacks on Kuwait. Iraq's attempts to discuss bilateral relation was turned down by the Sheik; he insisted that all negotiation with any foreign country must be through the British Government, either as an alibi to avoid contact with the Iraqi officials so soon after his troubles or his desire in complying with the 1899 treaty.

In retrospect, the conditions for the development of the reformist movement were ripe, encouraged by the Iraqi Government and King Ghazi's attitude. Kuwait's administration shortcomings, the discovery of oil in Kuwait, and the rise of the Arab nationalist or Pan-Arab in Iraq, Syria, and Egypt, encouraged the movement to demand democratic reforms.

The Sheik sentiment reflected the general mood and attitude in Kuwait toward Iraq. Despite the persistent propaganda blitz from the Iraqi media, most notably the daily editorials in Bagdad and Basra's papers or the nightly provocative broadcast by King Ghazi's Palace of Roses Radio Station (or Ghazi's wireless as it was known in Kuwait), the pro-Iraq feeling in Kuwait was limited to a handful of people. The overwhelming majority of the population was protective of the country's identity and independence. The British officials dismissed the strength of pro-Iraqi feeling in Kuwait with accusations of self-interest.<sup>460</sup> The British explicitly accused the prominent nationalist leaders of an attempt to avoid payments of certain sums due to the ruler by deposing him and by joining Iraq.<sup>461</sup>

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[https://www.qdl.qa/archive/81055/vdc\\_100024192326.Ox00009d](https://www.qdl.qa/archive/81055/vdc_100024192326.Ox00009d) (accessed 13 November 2019)

<sup>460</sup> Saeed Hashim, *The Influence of Iraq on the Nationalist Movements of Kuwait and Bahrain 1920-1961* p.128

<sup>461</sup> FO 371/23181 Confidential letter of March 24<sup>th</sup>, 1939, from the Residency, Bushire to the India Office, cited in Saeed



According to Jacqueline Ismael in her book, Council's formation represented "the ascendance to power of the bourgeois interest in Kuwait- that class of capitalist interests that had been most affected by the closure of commerce with Najd and the economic decline."<sup>462</sup> The popular demand in 1938 for new legislation to streamline government administration and for fiscal power over the country's finance was not unreasonable if it had been more consensual, less intimidating, and was from onset more inclusive. The need for change was imminent to ease the dire strait, deal with the multinational oil companies, manage the new wealth, and contain the creeping corruption.

In spite of the Council members' liberal inclination, and the broad support of the population, it was, after all, an elitist movement, with prejudices reflected in the exclusivity of the movement. The admirable notion of democracy, the just demand for reform, and unity of purpose became the reason for deliberate polarization, friction, and hostility. Merchants' unwillingness to expand their base and perhaps their reliance on Iraq's political clout and propaganda ultimately backfired. Even dissent within the ruling family faded once they felt threatened.

Although the first attempt at democracy failed, it became clear that an elected and balancing Council and better administration should be instituted one way or another. The need for a Council was seen as an essential feature of governing the state. The demand to establish an elected body sooner or later was planted in the public consciousness by the National Bloc and their movement. The merchants' demand for participation in governing the country and their eventual upheaval in 1938, though short-

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Hashim, *The Influence of Iraq on the Nationalist Movements of Kuwait and Bahrain 1920-1961*p.

<sup>462</sup> Jacqueline Ismael, *Kuwait Dependency and Class in a Rentier State*, p. 75, University Press of Florida

## THE PIVOTAL DECADE

lived, led to political, social, and administration changes and set the tone for power-sharing and public participation in the years to come. It is only fair to recognize that the movement, the Council, and the accompanying unrest in 1938-1939 had the most impact on the country's future political life. The movement was instrumental in establishing the groundwork for a constitution, and despite their exclusive sentiment, their action helped to lay the foundation for an eventual inclusive parliament and set the tune for the institutionalization of the oil wealth of Kuwait into the hands of the government.

Merchants' power and clout was merely transformed in the aftermath of the collapse of their movement. In a tacit pact with the Ruler, they traded off their political influence for a fair share of the new wealth. By the time oil export started, the local political attention had shifted to the new wealth, and the Advisory Board that replaced the elected Council had ceased to meet. Demands for political change became more evident in the 1950s, embraced by the younger generation educated in the universities of Cairo, Beirut, and England. The progressive elements of the 1930s, as described by the Political Agency annual report, "appeared to have been too preoccupied with their own progress in profiteering to have time for politics."<sup>463</sup>

The close call somewhat changed the ruling family's attitude in governing the State and their attitude toward its northern neighbor in Iraq. They assumed "superior posts in all government departments, including security, sea and shore police, control of arm reserve, and the city

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<sup>463</sup> Admin Reports of the Persian Gulf- 1945- (54r) 1071/1148), British Library: India Office Records British Library: India office Records and Private Papers, IOR/L/PS/12/3720A, in Qatar Digital Library [https://www.qdl.qa/archive/81055/vdc\\_10004675255.0x00006c](https://www.qdl.qa/archive/81055/vdc_10004675255.0x00006c) (accessed 1 March 2020)

police.”<sup>464</sup> The merchant withdrew from public life once the oil discovery diminished their role as the primary employment providers for the rest of the population. Employment was taken up by the oil company and by the government civil servants, which only strengthen the power and the clout of the ruler and his government.

Oil discovery and the ensuing revenues gave the rule even more clout. The Area Handbook describes the typical economic situation of the Gulf:

“As the oil income increased, the leaders became rich. Although the new leaders spend much of the new wealth on themselves, they also distribute it to the population under their jurisdiction and food for whoever needed it. As time passed, the form of largesse became more sophisticated and included the construction of infrastructure and school and hospitals.”<sup>465</sup>

Though it did not apply equally to all, the handbook assessment was accurate to a certain extent. Different rulers in the Arabian littoral of the Gulf followed their own set of approaches to managing the oil wealth. It was not too evident from the British documents the approach Sheik of Kuwait took, but the close timing of 1938 unrest with oil explorations and discoveries perhaps motivated the institutionalization of the oil wealth of Kuwait and for the transformation of the financial management of Kuwait to governmental institutions.

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<sup>464</sup> Political Agent, Kuwait to Political Resident, Bahrain, January 6<sup>th</sup>, 1938 (R/15/5/206) Admin Reports of the Persian Gulf- 1945- (54r) 1071/1148), British Library: India Office Records British Library: India office Records and Private Papers, IOR/R/15/1/549, in Qatar Digital Library [https://www.qdl.qa/archive/81055/vdc\\_100024192326.Ox00009d](https://www.qdl.qa/archive/81055/vdc_100024192326.Ox00009d) (accessed 13 November 2019)

<sup>465</sup> Area handbooks, Persian Gulf studies, Country Studies, Federal Research Division, Library of Congress, Edited by Helen Chapin Metz, January 1993, p. 31

## At Last, a Bank

Whatever limited banking the Ruler or the merchants needed was either through the banks in nearby Basra and those in the Indian cities where many merchants had their offices. Kuwait did not have any banks well into the 1940s nor had its own currency; Turkish Lira, Persian Riyals, Austrian Riyals, and British sterling were circulated at different periods; eventually, all dealings were dominated by the Indian Rupees in Kuwait and other Gulf Sheikdoms. It was only in April 1961, just months before its independence, that Kuwait finally had its currency; Dinar was introduced.

The start of Kuwait Oil Company's preparation and exploration encouraged the British banks to consider opening a branch in Kuwait. KOC had relied on the simple local exchanger in the souk and Basra banks for their transaction and payments in the absence of local banks. Though there was no specific commitment from the Sheik to obtain HMG approval on his choice for a bank, the Political Resident in Bushire "emphasized the importance of maintaining our special position in Kuwait by tightening up our control over the Sheik, by seizing every opportunity to increase our influence with the Ruler and generally strengthen our position in his territory."<sup>466</sup> Three banks, the Ottoman Bank in Bahrain, the British-owned Eastern Bank in Basra, and The Imperial Bank of Iran, had shown interest in opening a branch in Kuwait and were actively sending their bankers for discussion with the Sheik. They "believed that there would be sufficient volume of business to warrant opening a bank whether oil is found or not."<sup>467</sup> After a year of negotiation, Ottoman Bank and the British

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<sup>466</sup> Telegram from Political Resident, Bushire to Secretary of State for India, London, November 5<sup>th</sup>, 1936 (R/15/1/547)

<sup>467</sup> Political Agent, Kuwait to Political Resident, Bushire, August 6<sup>th</sup>, 1937 (R/15/1/547)

Eastern Bank dropped out on the premise that challenging conditions were being imposed. But according to the Sheik interpretation, their reluctance was the banks' wait and see attitude.<sup>468</sup> Eventually, the old British- Imperial Bank of Iran reached an agreement with the Sheik in December 1941 on the heel of oil finds in Burgan, while World War Two was still raging. The agreement was based on charging an interest rate similar to that in Iraq but disallowed loans against property mortgages. The bank recruited Kuwaiti employees as far as possible, but its management stayed British. By fiscal 1943, the bank was making a profit and had become an integral part of merchants' business. But the most significant value, although through covert means, was for the British Political Resident and HMG; it provided them with updated information on matters of economics that they could not obtain from any other sources.<sup>469</sup>

The Imperial Bank concession had an exclusivity clause that precluded the opening of another foreign bank in Kuwait but did not stop the establishment of a local bank.<sup>470</sup> The Sheik acceded to the merchants' request to open a local bank with Kuwaiti capital, eventually approved by the British authorities. The shareholding National Bank of Kuwait was opened for business in November 1952, with a capital of 11 million Rupees and a deposit by the Sheik of a million sterling and a half million dollars without interest.<sup>471</sup>

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<sup>468</sup> Political Agent, Kuwait to Political Resident, Bushire, October 16<sup>th</sup>, 1937 (R/15/1/547)

<sup>469</sup> Political Resident to Mr. Peel, India Office, London, March 1<sup>st</sup>, 1943 (R/15/1/547)

<sup>470</sup> Telegram from C J Pelly, Kuwait to Foreign Office, April 15<sup>th</sup>, 1952 (FO371/98403)

<sup>471</sup> Mr. C J Pelly, Political Agent, Kuwait to Sir Rupert Hay, Political Resident, Bahrain, October 9<sup>th</sup>, 1952 (FO371/98403)

## 9 The Dawn of Oil

*Formula for success: rise early, work hard, strike oil*  
*J. Paul Getty*

Kuwait and Gulf, in general, were transformed during the 1930s and after World War Two from a periphery of India in their affiliation to Great Britain to the center stage of oil production and world stage. Immense oil discovery and the eventual independence of India, the Gulf countries finally developed their own geopolitical relevancy.

It all started in Bahra, not too far from Kuwait Bay, where Holmes had found his first undisputed sign of oil back in 1927 while he was drilling for water. The first oil well was drilled there at the end of 1935, but without much success. Locally, the public was excited with the drilling activities; the oil company had already provided some jobs for the local laborers, but the promise of a better life was still out of reach for both the poor and merchants. Public disappointment was quickly reported in an article published in an Iraqi newspaper with the headline: "The Kuwaitis have lost their hope of oil."<sup>472</sup>

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<sup>472</sup> Extract from Al Sajil newspaper, July 6<sup>th</sup>, 1937 (R/15/5/249), Records of Kuwait 1899-1961 v5 petroleum Affairs. p. 232

## KUWAIT IN THE TIME OF BRITISH EMPIRE

By the end of 1937, KOC drillers moved to Burgan, where patches of Bitumen had long been cited. It was here in Burgan, southwest of Kuwait, that oil gushed with enough force on a rainy afternoon on February 26<sup>th</sup>, 1938, to break the wellhead valve; it soon proved to be one of the largest oil fields in the world. This time there were celebrations by the people of Kuwait, but no sooner than the celebrations ended, agitation started.

More wells were drilled in Burgan and Magwa in the early forties, even while World War Two battles were raging in Europe. Although the Gulf was at peace, the British Arm Forces were concerned with the possible threat and the prospect of sabotages of its oil facilities in Iran and around the Gulf. Nine wells had already been drilled between 1938 and 1942, when the British Government, despite the Sheik's protest, forced the Company in July 1942 to cap and cement those wellheads; all operations were suspended even before any oil was exported. The British Government ordered the resumption of Kuwait's production as soon as the German's threat subsided and the end of the war was in sight. Unplugging activities and drilling of new wells commenced in early 1945, and the construction of handling facilities, pipelines, and a temporary export pier one mile off the shore, were underway.

Construction of Ahmadi, a new oil city named after Sheik Ahmad Al Jaber, 30 miles south of Kuwait town in the middle of nowhere, commenced. It was built in the desert area not far from the rich oil field of Burgan on a hill overlooking the Gulf. It was typical of company towns, more connected to the oil fields than the local population center. It was a delightful town dominated by the Company's headquarter with tree-lined roads, homes facing east to catch the pleasant morning sun and avoid the hostile southern sun rays of summer, with gardens and

slanted roofs suitable for countries with heavy rains and snow. Its lifestyle replicated a small English town with sport and social clubs and markets with goods appropriate for the British family taste. Perhaps the amenities to emulate the life back home were needed to attract the technical expertise and their families into an isolated location with summer temperatures of 50 degrees.

Its colonial character was conspicuous. The town was divided into three sections. The company management, technical staff, who were all white British subjects of European descent, live separately from others with their own club, tennis courts and rugby field, restaurants, churches, and a huge central air condition system. In contrast, housing and the immunities and clubs for other employees, natives, and non-Europeans, although adequate, were inferior. For all practical purposes, the company's Chairman was the city mayor, living in what was peculiarly called The White House. The town was administered, well into the seventies, with its own rules resembling an English town. It was exclusively governed by the Company, under its own jurisdiction, including Chairman Instruction to the police for immunity of the British and the American from prosecution. It was a male-dominated company; except for nurses and secretaries, who were obliged to resign once married, no females were recruited or allowed in the technical jobs.

It was a pleasant garden town with greenery and public parks that became a weekend attraction for the people living in the city of Kuwait, 30 miles away. Nonetheless, it was hard to escape the industrial nature of the town; the sight of the large tank farm on the east corner of the town, with gravity lines to the new oil pier, was hard to miss.

Curiously enough, the colonial division continued even post nationalization of the Company. The new owners and the Company's management, mostly Kuwaitis, gradually



replaced the British in the elite side of town. Except for the new tenants, not much changed.

The first consignment of 800,000 tons of crude oil was shipped in June 1946 in a historic ceremony from a temporary oil terminal not far from Ahmadi into the "British Fusilier." It ushered a new life for Kuwait's population, at last, a chance to break away from their persistent poverty. Oil production increased rapidly from around 45,000 Barrels per day in 1947 to 350,000 in just four years. The actual Royalty payment rose from virtually nothing in 1945 to an equivalent of 600,000 Pounds or two million dollars at the 1947 rates and was expected to increase by leaps and bounds to over three million pounds annually by 1950.<sup>473</sup> The management of the new wealth and the disposal of the spectacular increase of the income compared to the local requirement was expected by the Foreign Office to present a problem if not handled well.<sup>474</sup>

Once wartime price control was lifted, US domestic petroleum product prices, notably gasoline, doubled, causing the international crude prices to reach unprecedented levels. By virtue of their domination of all aspects of the industry, the Majors sustained the oil prices at or above the new levels through a "systematic restriction of output at home and aboard."<sup>475</sup> Price increase did not add to the oil-producing countries' treasury since most concussions in the Gulf were based on royalties paid on tons of oil produced regardless of prices. On the contrary, production restriction negatively reflected their revenues whenever the oil companies

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<sup>473</sup> Mr. J W Farrell, Ministry of Fuel and Power to Mr. F A K Harrison, India Office, November 6<sup>th</sup>, 1946 (R/15/5/251), Records of Kuwait 1899-1961 v5 petroleum Affairs p. 291

<sup>474</sup> Mr. D A Greenhill, Foreign Office to Mr. F A K Harrison, India Office, April 19<sup>th</sup>, 1947 (FO 371/61423), Records of Kuwait 1899-1961 v5 petroleum Affairs. p. 294

<sup>475</sup> John Blair, *The Control of Oil*, Vintage Books, p. 276

curtailed their production to comply with the overall systematic restrictions.

The tremendous increase in global demand needed for the rebuilding of post-World War Two Europe was easily met by the rise in production from existing fields and the discoveries in the Middle East and North Africa. With their hands on all the concessions, the markets, and everything in between, the Majors were able to manipulate the complex supply and demand of the global markets. They employed various mechanisms, including curtailment of output in case of glut, and production increase during unexpected or unplanned shortages.

According to Exxon's internal report, Kuwait's oil fields were designated as "evenner"<sup>476</sup> or a swing producer. "Its output was determined to be the difference between Eastern Hemisphere demands and supplies from all other sources."<sup>477</sup> Kuwait's production was rapidly increased in times of an unexpected supply interruption caused by cuts in other countries' productions, shipping constraints, refinery shutdowns, unforeseen circumstances, or changes in the forecasts. Unlike the steady production patterns that prevalent in the neighboring countries, Kuwait's output fluctuated. It was relatively low in the slow-growth years (1958-1959) and the early sixties.<sup>478</sup>

Despite the mandatory fluctuation, Kuwait's crude was by 1950 the highest through the Suez Canal, followed by oil from Iran and Saudi Arabia.<sup>479</sup> Kuwait's role as an evenner played out well for the British AIOC during the

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<sup>476</sup>Exxon internal yearly forecast cited in John Blair, *The Control of Oil*, Vintage Books, p. 110

<sup>477</sup>Exxon internal yearly forecast cited in John Blair, *The Control of Oil*, p. 110

<sup>478</sup>Exxon internal yearly forecast cited in John Blair, *The Control of Oil*, p. 110

<sup>479</sup>"Suez Canal Traffic Trend" *Economist* (London, England) 14 Apr. 1951: 889+. The Economist Historical Archive Web. 19 June 2019

blockade of the Iranian oil in their conflict with the Persian Government in 1951-1953. The cessation of the Iranian oil and refined products in May 1951 forced the Anglo-Iranian Oil Company (AIOC) to find other sources to supply its outlets and meet its contractual obligation with the other oil companies. The abrupt loss of crude from Iran accelerated oil production from Kuwait. AIOC (later BP), the partner in Kuwait Oil Company, needed 615,000 barrels per day to supply its refineries and meet its customers' needs, of which it was able to produce close to 500,000 BPD from Kuwait alone.<sup>480</sup> Kuwait's production was increased rapidly in June 1951 from 400,000 BPD, of which AIOC's share was 200,000 BPD to 700,000 BPD in just one month.<sup>481</sup>

AIOC's reliance on crude oil produced from Kuwait relieved their supply predicament, strengthened their negotiation position with the Persian government, and led the company directors to take an uncompromising stand during their hard negotiation with Iran. It was equally detrimental to Iran's nationalization cause since it deprived Iran's Prime Minister, Mosaddeq, of the critical leverage he needed. It was an event that escaped the Persians nationalization aspirations.

Production replacement altered Britain's oil policy in the region and fortified Kuwait's strategic importance over the next few years. The Foreign Office note in July 1953 to Political Resident Bernard Burrows clearly stated that "during the last three years Kuwait has become of prime importance to the United Kingdom and the sterling area as a whole. It is now a major source of oil supplies and an

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<sup>480</sup> James Bamberg, *British Petroleum and the Global Oil, 1950-1975, The Challenge of Nationalism* Cambridge University Press, p. 21

<sup>481</sup> James Bamberg, *British Petroleum and the Global Oil, 1950-1975, The Challenge of Nationalism* Cambridge University Press, p. 22

important element in our balance of payments. HMG can no longer afford to confine themselves to the role authorized by the treaties in all matters which affect the political and economic stability of Kuwait or which may affect the interest of the United Kingdom in the widest sense. The new conception of the role of HMG in regard to Kuwait entails a change in the nature of the advice to be tendered to the Ruler and in the channels through the advice to be tendered to the Ruler and in the channels through which the advice is communicated.”<sup>482</sup>

The discoveries of new fields in other parts of the country, including the large oil field in Rawdetan in the north of the country near the Iraqi border, by the Kuwait Oil Company and other concessioners, increased Kuwait’s oil production at an unprecedented pace. It quickly surpassed a million barrels a day in 1955, and by 1964 its production reached the two million per day mark. With no gas recovery, the Company flared all the associated gas. The view from above was of wasteful flares as far as an eye can see.

## **50/50 Agreements: The Equitable Split**

Though oil royalties paid to the Gulf rulers were relatively large, it did not exceed 10 percent of the companies’ total ex-expenses profits. The post-war higher prices and the disparity between profit made by the companies and meager royalty payments paid to the rulers were bound to be a source of conflict. The long-precipitated sentiment of the Persians of the lopsided distribution of AIOC’s profits and the closed books of the Company raised the sense of unfairness on both sides of the Gulf. Governments and the

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<sup>482</sup> PRO:FO 371/104270: Kuwait: Foreign Office Minutes, July 17, 1953: Ross to Burrows, cited in a paper: Relations between Britain and Kuwait, 1957-1963 by Richard Stables, University of Warwick May1996

oil companies realized that the provisions of the original concessions of the Gulf countries were no longer sustainable,<sup>483</sup> and more balanced agreements were badly needed. The Saudis and the Persians took different roads; the Saudis opted for a reasonable negotiated settlement with the American concession holder, while the Persians, perhaps influenced by their long association with the oil company, were resolved to nationalize AIOC.

The realization of better concession terms in Venezuela, the Saudi Government quietly and prudently negotiated a similar agreement in December 1950 with the American holder of its concession. Aramco agreed to revise the 1933 original concession from a pure royalty base to an arrangement that ensured an equal share of the final profit between the King and the oil consortium. The new agreement emulated the Venezuelan law enacted in 1943. The royalties were kept intact but imposed an additional income tax "in an amount which, when added to royalties, rentals, and other exaction will equal to 50% of the company's gross income for the taxable year after the due reduction of operating cost."<sup>484</sup>

The new income tax imposed by the Saudis did not burden Aramco's owners; under the US laws, the American companies were allowed to credit the tax paid in a foreign country against its income tax in the United States. As explained in a memorandum by Gulf Oil in May 1951, "by the imposition of the 50-50 income tax, the revenue of that country has been very greatly increased without causing any substantial additional burden on Aramco and without affecting adversely their competitive

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<sup>483</sup> Sir Gerald Fitzmaurice, Aminoil separate opinion

<sup>484</sup> Memorandum on the oil revenues and taxation of Kuwaiti and Saudi Arabian oil production prepared by Gulf Oil Company, submitted in April 1951 (FO E71/91334), Records of Kuwait 1899-1961 v5 petroleum Affairs p. 318

position in the production and sale of petroleum.”<sup>485</sup> The US Government realized that an American company could not compete in the overseas markets if subjected to the US Government’s income taxes and taxes imposed by the countries they operated in. The British were caught off guard by the new arrangement between the Saudi Government and Aramco; a member of the British Eastern Department complained that “Neither we nor the British Oil Companies in the Middle East were warned or consulted.”<sup>486</sup>

Even before the revision of Saudi Arabia’s concession, Kuwait’s revenue was “very substantially less than those obtained in the neighboring countries” in Saudi Arabia, Iraq, or Iran. The Sheik’s repeated demands for an increase in his country’s revenue from its natural resources fell on deaf ears. However, the revision of the Saudi concession in December 1950, the surge of contentious events in Iran, and the broad ascent of the nationalistic sentiment in Iran and the Arab countries became a concern for the US Government. Gulf, the American partner in KOC, became convinced that it was “the only feasible solution of the Kuwait problem is to accede to the imposition by Kuwait of an income tax along the lines of that Saudi Government.”<sup>487</sup> The US State Department was concerned that agitation against Kuwait’s government acceptance of the status quo, or terms inferior to that achieved by Saudi Arabia and Iraq, might be

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<sup>485</sup> Memorandum on the oil revenues and taxation of Kuwaiti and Saudi Arabian oil production prepared by Gulf Oil Company, submitted in April 1951 (FO E71/91334), Records of Kuwait 1899-1961 v5 petroleum Affairs p. 319

<sup>486</sup> Simon Smith, *Ending Empire in the Middle East: Britain, the United States and the Post-War Decolonization, 1954-1973*, p.34

<sup>487</sup> Memorandum on the oil revenues and taxation of Kuwaiti and Saudi Arabian oil production prepared by Gulf Oil Company, submitted in April 1951 (FO E71/91334), Records of Kuwait 1899-1961 v5 petroleum Affairs p. 318

possible. They recommended, "a more equitable level is necessary if later difficulties are to be avoided."<sup>488</sup>

It was not as easy for Kuwait Oil Company to follow suit. The British attitude was still colonial, as demonstrated in their reaction to the nationalization of oil in Iran. More critically, the UK's tax laws were not as accommodating as those of the US for the British overseas companies. Since KOC was wholly British with its headquarters in London, the US tax laws did not apply even to the 50% share of Gulf Oil. To resolve the dual tax impasse, Gulf Oil proposed reorganizing the Kuwait Oil Company structure and revising the ongoing concession agreement with Sheik of Kuwait to be similar to the 50/50 profit sharing between the Saudi Government and Aramco. Their recommendation was to split the concession equally between two new companies; AIOC would own the British half, and the American half would belong to Gulf Oil.<sup>489</sup> The terms of the operating agreement were kept intact under London-based Kuwait Oil Company. The new structure would guarantee separate royalty and income tax payments from the two companies to Kuwait's Government. Gulf Oil could then claim tax relief from the US Government, while AIOC could claim partial relief from the British tax authorities.

After protracted and difficult negotiations that involved US State Department, and UK's Foreign Office, and Inland Revenue Authorities, the two companies agreed to the proposed restructuring of Kuwait Oil Company in a way

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<sup>488</sup> Extract from Oil Nationalization in Iran and its potential impact on other oil concessions in the Near East, prepared by the Office of Intelligence Research, Department of State, Washington, 28 June 1951 (FO 371/91336), Records of Kuwait 1899-1961 v5 petroleum Affairs p. 340

<sup>489</sup> Memorandum on the oil revenues and taxation of Kuwaiti and Saudi Arabian oil production prepared by Gulf Oil Company, submitted in April 1951 (FO E71/91334), Records of Kuwait 1899-1961 v5 petroleum Affairs p. 320

that the two companies could claim tax credits from their respective governments. Kuwait Oil Company would then operate on a management basis by a single British Company, jointly owned by the two companies. To ease the British authorities' concern, Gulf proposed that the two companies' payments were made in sterling rather than the expected mix of dollars and sterling or rupees as was the basis of the 1934 agreement. The 1934 concession was amended with the following article:

"From 1<sup>st</sup> December 1951, all payments computed in rupees to be made by the British company and the American company to his Highness under the concession shall be made in sterling (United Kingdom) at the official rate of exchange in effect in London on the date of payment becomes due".

The new arrangement relieved the British Government from their obligation to purchase rupees from the Indian markets, no longer under their control. Nonetheless, payments in sterling supported the British Government to maintain the sterling strength for a while longer.

The two companies finally concluded that it would be only fair and equitable to accept the principle of equal division of profits.<sup>490</sup> An agreement was reached between KOC and Sheik Abdulla in December 1951 to apply the 50/50 principle, by then the oil industry's template. The 50/50 accord was based on adjusting the income tax due for the Sheik, "which when added to the flat rate of royalty will make the total payment to the Ruler at 50% of the net profit". Although Sheik Abdulla Al Salam, who ruled since February 1950, accepted the upward revision to half of the profit, he was impressed with the changes made to the Iraq Petroleum concession and had insisted on KOC owners for similar terms. KOC agreed to supplement the

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<sup>490</sup>The Company's offer to the Sheik of Kuwait, July 6<sup>th</sup>, 1951, BP Archive ARC 67294 p. 2



new agreement with additional terms, including a minimum payment of an annual five million pounds in case of force majeure and lowering per barrel operating cost. However, the change of terms came at a price; the new agreement was extended by 22 years to 2026.

Royalty payments in both the 1934 concession and the new agreement were based on tons of oil produced irrespective of the prevailing price. However, the net profit in the new agreement was based on the fixed posted price rather than the fluctuating realized prices. It was merely the product of the multiplication of tons of oil produced with the “posted price” of crude after deduction of operating expenses. Although the arbitrary posted price was not the market price, it was, as far as the producing countries were concerned, what mattered. Royalties were calculated based on the original agreement of Rs3 and 4 Indian annes per ton, equivalent to approximately 5 English shillings or less than 10 US cents a barrel. However, total revenue increased by five folds to 50 US cents a barrel once the new income tax was added.

Production increase from Kuwait’s oil fields to replace the barrels lost from Iran and the alteration to the concession added enormous revenue to Kuwait’s treasury. Kuwait’s oil revenues increased from 4 million pounds in 1950 to 60 million only two years later.<sup>491</sup> In essence, it rose from practically zero in 1946 to an annual of 60 million pounds in 5 years and the magical billion US dollars by 1970.<sup>492</sup>

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<sup>491</sup> Memorandum by C M Rose, Foreign Office on provision of agreement between Sheik of Kuwait and Kuwait Oil Company, November 27<sup>th</sup>, 1951 (FO 371/98417), Records of Kuwait 1899-1961 v5 petroleum Affairs p. 369

<sup>492</sup> Kuwait Currency Board and Kuwait Planning Board, Oil Production, 1958-68, oil production and revenues, 1946-72, Records of Kuwait 1899-1961 v5 petroleum Affairs p. 394

## **The Concessions of the Neutral Zone**

The enormity of oil finds in the Burgan to the north and the large oil fields of Hasa to the south whetted other oil companies' appetite for the oil in the Neutral Zone. The 1800 square miles zone between Saudi Arabia and Kuwait was created during Al Uqair conference in November 1922 by the British High Commissioner of Iraq, Sir Percy Cox. Although the British authorities in the Gulf justified Zone for the convenience of the roaming tribes, oil was not too far from the British mind.

The King of Saudi Arabia and the Sheik of the Emirates of Kuwait enjoyed equal rights to the Zone's natural resources, most obviously oil. Notwithstanding all the political complications surrounding the Natural Zone, oil companies, most notably Americans, were eager to compete for a concession. Aramco had secured the Saudi interest and rights as part of a supplementary agreement signed with King Abdul Aziz as early as 1939. The Ruler of Kuwait requested the interested oil companies, but not limited to Kuwait Oil Company's partners, to bid for his half after receiving due permission from the British Government in September 1947.<sup>493</sup> Many independent oil companies, including the American Independent Oil Company (Aminoil), were in the running. Seemingly, the US Government, in its effort to limit the monopolies of the major oil companies, encouraged the independents to participate in the international oil consortium.

The American Independent Oil Company (Aminoil) was formed in 1947 by twelve US independent producers led by Phillips Petroleum, Signal Oil, and Ashland Oil and Refining, with a capital of \$100 million, essentially to compete for the neutral zone concession. Aminoil, in a

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<sup>493</sup> Sir W R Hay, Political Resident, Bahrain to Rt Hon Ernest Bevin, Foreign Office, July 23<sup>rd</sup>, 1948 (FO 371/68315)

bidding auction conducted in London on behalf of the Sheik, easily outbid the competition (Amerada, Gulf, and The Burma Oil) with a generous offer. They offered \$7.25 million at the signing, an annual payment of \$625,000 until oil was found, a royalty of \$2.5 per English ton of oil won and saved, and a commitment to build a new refinery which 15 percent to be owned by the Sheik.<sup>494</sup>

The two sides, the Ruler of Kuwait and the American Independent Oil Company, concluded a 60 years concession agreement on June 28<sup>th</sup>, 1948, "to explore and exploit for oil and neutral gas within the Neutral Zone between Kuwait and Saudi Arabia."<sup>495</sup> The President of Aminoil announced in the summer of 1948 that his Company was the first independent producer to secure a concession in the Middle East on such a large scale.<sup>496</sup> They began their first exploratory wells in December 1949, but it was five years later that they finally produced commercially viable quantities.

The Sheik continued to receive all royalties in his bank account and funding the functional departments. The Political Resident reported in December 1948 that the Sheik received KOC's payment in his bank account and then ordered its transfer to the Finance Department. He further noted that "the dollar payments recently received from Aminoil, viz. 7 million 875,000 dollars have been credited to the Finance Department."<sup>497</sup>

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<sup>494</sup> Sir W R Hay, Political Resident, Bahrain to Rt Hon Ernest Bevin, Foreign Office, July 23<sup>rd</sup>, 1948 (FO 371/68315)

<sup>495</sup> Concession Agreement between the Ruler of Kuwait and the American Independent Oil Company, dated June 28<sup>th</sup>, 1948

<sup>496</sup> "Middle East Enterprise" *Economist* (London, England) 18 sept 1948:476. The Economist Historical Archive. Web. 13 June 2019.

<sup>497</sup> Note concerning Ruler of Kuwait and the royalties initialed by Political Resident, Bahrain, September 17<sup>th</sup>, 1948 (R/15/5/223), Record of Kuwait V2 Internal Affairs 1921-1950, p. 568

The lucrative agreement encouraged King Abdul Aziz to grant his concession of Saudi Arabia's half of the Neutral Zone, previously with Aramco, to Western Pacific Company (renamed Getty Oil Company in 1956). Getty's offer was even more lucrative; they beat other bidders in 1948 with an offer of \$9.5 million and a royalty of 55 cents a barrel.

Both the Saudi and the Kuwaiti concession agreements covered their respective and equal rights within the whole of the Neutral Zone in line with the 1922 Kuwait-Najd Boundary Convention. An agreement was reached between the two Governments to arrange for the administration of the territory and the supervision of the activities of the two oil companies. The two companies, Aminoil and Getty, concluded an agreement in June 1956 approved by the two governments to manage their mutual interest and establish a joint and coordinated exploitation program in the Zone.<sup>498</sup>

Despite the difficult relationship between the two American companies, oil was finally struck in the Wafra field in 1953, and in 1954 production and exportation of crude began. By then, the two companies had spent close to \$30 million between them.<sup>499</sup> Wafra was more challenging than the accessible fields of the nearby Burgan, producing crude that was inferior to the crudes produced in the nearby fields. Excessive salt and water had to be removed before shipment, and by the 1970s, the reservoir pressure had dropped to the extent that its natural force was replaced by artificial drive. Four years later, in 1958, Aminoil commissioned its refinery in Mina Abdulla, only a few miles south KOC's refinery.

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<sup>498</sup> Arbitration case between Aminoil and Kuwait Government, introduced on June 23<sup>rd</sup>. 1979

<sup>499</sup> Mr. G C Pelham, British Embassy, Jeddah to Mr. A D M Rose, Foreign Office, April 1<sup>st</sup>, 1953 (FO 371/104319)

Profit-sharing replaced the royalty-based concession between Kuwait and Aminoil. In July 1961, the two sides signed a supplementary to the 1948 Principal concession, in which it modified the financial clauses and subjected Aminoil to Kuwait's Income Tax. Aminoil became liable to 50/50 profit-sharing backdated to 1955, calculated based on "posted prices." Profit split was eventually modified to 57/43 in favor of Kuwait's Government from 1961 based on "realized prices."

The general condition of the oil market, the stiff competition, the marginal production of Aminoil that amounted to only 2.5 percent of total Kuwait output, and the Company's financial losses obliged its owners to sell their shares, including Kuwait's concession rights, in 1970 to R. J. Reynolds Industries Inc, best known for their famous Winston and Salam cigarettes, for \$56 million. The policy adopted by the new owner was driven by maximizing the company's profits through minimum expenditure; it deferring all capital expenditure and assumed a strategy of preserving the status quo. Kuwait's Government objected to the new owners' policy describing their approach "as if each day in Kuwait might be its last."<sup>500</sup>

Aminoil, like other oil companies operating in the Gulf region, agreed to drastic price changes of the 1970s and complied with the various OPEC resolutions to increase tax rates and other financial terms. Aminoil's profit, like other oil companies, increased drastically as a result of the quadrupling of the posted prices. Its profit rose practically tenfold, from \$4 million in 1973 to 40 million only three years later in 1976.<sup>501</sup>

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<sup>500</sup> International Investment Law and Arbitration, Martin Hunter and Anthony Sinclair, *Aminoil Revisited: Reflection on a Story of changing Circumstances*, p. 350

<sup>501</sup> Arbitration case between Aminoil and Kuwait Government, introduced on June 23<sup>rd</sup>. 1979

Another concession agreement was in the making, this time to explore for oil in the Neutral Zone seabed between the two countries. King Abdul Aziz, King of Saudi Arabia, and Sheik Abdulla Al Salam, Ruler of Kuwait, signed a joint proclamation on April 12<sup>th</sup>, 1953, in which they announced that the two Governments agreed to share equal rights of the resources in the seabed and subsoil in the territorial waters of the Neutral Zone.<sup>502</sup>

To the British and the American oil companies' discomfiture, Sheik Abdulla Al Salam followed the Saudis lead when he also awarded in May 1958 his half share of Neutral Zone seabed to the Japanese entity, The Arabian Oil Company (AOC). The new Company was formed by a Japanese entrepreneur Taro Yamashita and 40 investors group of Japanese industrialists with a \$183 million capital to work within the Gulf area. He broke the western monopoly when he signed in 1957 a generous concession with the Saudi Government for the exploration of the continental shelf 6 miles offshore from the Saudi-Kuwait Neutral Zone, outbid their competitor, Shell, and the US-based Hunt Oil.

On July 5<sup>th</sup>, 1958 Kuwait Government awarded The Arabian Oil Company a 44-year oil concession over their undivided one-half interest for Kuwait's rights in the Neutral Zone seabed. The separate concessions from Saudi Arabia and Kuwait guaranteed AOC exclusive rights to 7000 offshore square kilometers off the Neutral Zone coast. The profit-sharing concession was no longer on a 50/50 split; instead, the two Governments' take was increased to 57/43 (calculated based on posted prices) and included a \$5 million bonus when production reaches 50,000 barrels a day.

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<sup>502</sup> Joint proclamation by Ruler of Kuwait and King of Saudi Arabia regarding seabed and subsoil, April 12<sup>th</sup>, 1953 (FO 371/120652)

The Japanese moved swiftly to explore the area. They commence their activities in Khor Maffitah, on the shores of the Gulf. Despite the difficulty of offshore exploration and the notorious cost involved, the Japanese found oil with the first well they drilled in the summer heat of August 1959. It was also their first disastrous accident. A natural gas escaped under a mobile platform and a massive fire erupted, finally extinguished after 11 days by the Texan firefighters and engineers. It was a distressful time for the Japanese, worried that they had failed in the first Middle East endeavor. The explosion was, if anything, a sign of oil and gas finding; Saudis assured Yamashita and the Japanese of their support and their commitment to continue with their exploration.

Drilling restarted after three months; although their first finding was small, their persistence paid off. They had by 1964 drilled 34 wells, and their production had reached 240,000 barrels a day. The Japanese Government did not allow AOC to engage in downstream activities, but it obliged the Japanese refineries to purchase the Neutral Zone oil from AOC.

Like the Saudi concession with AOC, Kuwait's profit-sharing with the Japanese was extended beyond production to refining, transportation, and marketing. However, unlike the Saudi terms with AOC, Kuwait's agreement included a provision that losses incurred in one phase would not reflect on the payable on profits earned from the others. Although the deal was similar in many respects to the Saudi's, the Kuwaiti side was not obliged to exercise the option of sharing in downstream operations until they are satisfied that it was profitable.<sup>503</sup> The Company was also obliged to build and maintain a

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<sup>503</sup> "Kuwait Oil for Japan?" *Economist* (London, England) 10 May 1958:524. The Economist Historical Archive. Web. 13 June 2019.

## **THE DAWN OF OIL**

Research Institute at its own expense once oil production commenced.



## **KUWAIT IN THE TIME OF BRITISH EMPIRE**

## **10 Rags to Riches: Kuwait in The Fifties**

On the eve of the first shipment of oil on June 30<sup>th</sup>, 1946, the people of Kuwait were hard-pressed to make a living. Though the situation had somewhat eased from the previous decade, most of the population was still under grinding poverty. Most lived in baked-mud homes, on narrow alleys, surviving the extreme heat of the long summers mostly without electricity. The country had only one bank, no newspapers, only dirt roads, and no national budget. Most of the people had survived for centuries on small revenue driven from the sea. Its drinking water was imported by wooden boats from the nearby river of Iraq fifty miles away, and brackish water sourced from wells outside city walls or those bore in the homes used for bathing and cleaning.

It had a prominent merchant tradition, and until the discovery of oil, there was almost no interference from the ruling authorities in their affairs. The flow of oil revenue, though small in the beginning, absolved the Ruler and his family from the financial dependency of the merchants and, in the process, weakened merchants' position. No longer was the Sheik dependent on their taxes; it was the merchants who needed the government contracts and expenditures.

The old medieval social structure and the classic dependency broke down. Though the Sheik continued to rule, he no longer required the merchants to avail funds by way of taxes, nor the people needed the merchants for their employment. In the new norm, the government hired all citizens directly into state bureaucracy, provided services, schools, and medical care. The new revenue accelerated the demise of the traditional industries; pearling became part of the country's legacy, and transit trade, including gold smuggling, though persisted little longer, was soon secondary enterprise. The sleek and graceful dark brown wooden ships with white sails were relegated to fishing boats and became the icon of the country's identity. The new wealth in the government's hands left the merchants, except for their lingering legacy, with virtually little public backing or political clouts.

Just a month into the 1950s, the reigning Sheik Ahmad Al Jaber died on January 29<sup>th</sup>, 1950, succeeded by his cousin Sheik Abdulla Al Salam two days later. Contrary to the norms, the British authorities were slow to recognize his rule. The Sheik record, in particular during the 1938 unrest and his reluctance to accept political advisors, was perhaps behind the British hesitation to sanction his rule. He was nonetheless recognized two weeks later as the new Ruler of Kuwait.<sup>504</sup>

The new Sheik attitude to life and governing was described in the British Political Agent Annual Report of 1951 as he wrote:

"His religious spirit, simplicity in living, dislike of the display, devotion to the old Arab virtues (particularly, to their individualistic brand of freedom), and to the old Oriental object in life - the calmness of spirit. To such a man, the main concomitant of the great wealth was added

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<sup>504</sup> Political Agent Kuwait to Sheik Abdulla Al Salam with enclosed letter dated 16 February 1959 from Political Resident to the Ruler (FO371/82029; FO1016/119)

responsibilities, and self-restrained became his hallmark. There is no doubt that he wishes all to be done for the welfare of his people but shrinks from definitive action against sectional interests cherishing no such aim and only out for their own ends.”<sup>505</sup> He was known for his austere principles; he soon sold the million-dollar yacht he inherited to the Iraqi government for 50,000 pounds, to be replaced by a diesel-driven dhow for his trip to the islands nearby and his excursions in the Gulf.<sup>506</sup>

He revived the declining domination of the merchants. It was through his personnel association with them during the unrests in the late 1930s and his recognition of their long history, influence, and contributions in sustaining the livelihood of the people; he surmised the wisdom of gaining the merchants’ support while satisfying the population and keeping them contented. Despite their setback, the merchants retained their position with the Ruler and continued to be a power to reckon with. They used all possible opportunities and influence to enhance their wealth and strengthen their long-term business<sup>507</sup>. They continued to be referred to, in the government documents and publications throughout the fifties, as Aayans or elites, a term borrowed from Bagdad.

Oil and the accompanied wealth changed the country and people’s attitude; it was not a slow evolution but rather a significant transformation of the way of life. The discovery of oil ended an era of hardship and poverty, and with relative speed, was replaced with a life filled with material necessities and extravagates. The rapid influx of revenue in the decades to come, though from a single source, brought general prosperity. The general public was gradually feeling the benefits of the new wealth; soon, their lives elevated to that of the middle class. They were

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<sup>505</sup> Kuwait Administration Report for 1951 (FO371/98323)

<sup>506</sup> Kuwait Administration Report for 1951 (FO371/98323)

<sup>507</sup> Kuwait Administration Report for 1951 (FO371/98323)

no longer dependent on the merchants for their livelihood; instead, it was shifted to more neutral employment in the oil companies and the institution of public service. They were no longer cramped in heavily mortgaged mud houses; instead, they were all housed in detached units in the new suburban. On the downside, the economic cycle was transformed from the production of goods and services to the consumption of commodities imported from Middle Eastern countries and the industrial world.

Sheik Abdulla ruled at a time when the country's oil revenue was on the rise, making social and financial changes imminent. He eased some of the autocracy's oppressive behaviors by some members of the ruling family that became prevalent since 1939 and incapacitated elements of conflict within the ruling family. He loosened some rules, allowed newspapers' publication, and permitted the establishment of political associates disguised as sporting clubs to function.<sup>508</sup> In essence, social reforms and wealth distribution expeditiously broke down the feudal structure, and new social systems soon evolved. But it was also time for plunder and waste, if not short of widespread corruption that came with the recent developments and wealth and brought the state despite the accelerated revenue close to bankruptcy in the early 1950s.

The post-oil era was dominated by urban expansion driven by the Development Board and the outward look toward the Arab countries through the nationalist movement that had spread in the Arab world. But the most striking change was the transformation of the country toward an elaborate welfare state, driven by the large oil revenues. Extensive health care, new hospitals, and unusually large schools were built coupled with an

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<sup>508</sup> Jacqueline Ismael, *Kuwait Dependency and Class in Rentier State*, p. 82, University Press of Florida

impressive program to educate virtually all the eligible post-high school students in the British, Egyptian, Lebanese, and American universities. The generous welfare raised the per capita from a mere \$50 a year on the eve of the first oil shipment to more than \$3500 in 1967, the second-highest in the world.<sup>509</sup> Free health, education, housing, and guaranteed employment for all citizens was the norm eventually became the expectation for generations to come.

Kuwait's Government became involved in supporting the other Gulf countries, including Yemen. Starting in 1953, Kuwait constructed, staffed, and furnished several modern schools in small emirates that today constitute the United Arab Emirates (Dubai, Sharjah, Umm al-Quwain, Ajman, Ras al-Khaimah, and Fujairah). Kuwait's support was eventually extended to health service, building clinics, and provided doctors and medicines.

Perhaps the most controversial decision of the fifties was the "Land Acquisition Policy (LAP), locally known as *tathmeen*," enacted by the Government in 1951. Lands and homes within the town's gated wall were purchased by the Government at inflated prices, at times five times the market price. Although it started as an acquisition of lands needed to make room for government projects, it soon became a mechanism for distributing the oil revenue, stimulating the economy, and enriching the population. Though all land and homeowners in the walled city, both rich and poor, benefited, naturally, it was members of the Ruling family who had the political clout, and the merchant who owned large pieces of land gained the most. Moreover, the state provided all Kuwaiti males of a certain age with subsidized housing in new areas; eventually, the

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<sup>509</sup> United Nations, *Studies on selected Development Problems in various countries in the Middle East* (New York, 1967), p. 3

whole population was suburbanized in new towns outside the walled city.

Although the government injected enormous capital into the market through land acquisition, it failed to invigorate the economy. The generous land acquisition only encouraged speculation in real estate in and around the town and initiated land grabs by some inside the walled city, but mostly in the desert areas out of the gates. The Political Resident described those involved as the most greedy and selfish unequaled in any Gulf country.<sup>510</sup> Jacqueline Ismail explains in her book "Kuwait Dependency and Class in a Rentier State" that, "in the public domain of the desert, those who had an insight into expansion plans fenced in and claimed ownership of huge tracts of the barren sand. The government then purchased these lands at handsome prices to accommodate expansion"<sup>511</sup>.

The new age of prosperity, once oil export started, did not change the country's administration; it continued to be disorderly, and its legal system was as static as ever.<sup>512</sup> The Advisory Council assembled after the 1938-1939 movement had not met for a long time.<sup>513</sup> Despite the commotions and turmoil in the neighboring countries, the political scene in Kuwait was generally quiet; it remained, as noted by a Director of Gulf Oil Company after visiting Kuwait in September 1950, "tranquil in the prevailing circumstances of Middle East, often full of animosity and bitterness."<sup>514</sup> The progressive elements of the 1930s were

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<sup>510</sup> Political Resident, Bahrain to Foreign Office, April 29<sup>th</sup>, 1952 (98325/371)

<sup>511</sup> Jacqueline Ismael, *Kuwait Dependency and Class in Rentier State*, p. 103, University Press of Florida

<sup>512</sup> Kuwait Administration Report for 1951 (FO371/98323)

<sup>513</sup> Political Agent Kuwait to Political Resident Bushire September 12<sup>th</sup>, 1940 (R/15/5/194),

<sup>514</sup> Aubrey Scofield, Gulf Oil Company official reporting on aspects of the political situation in Kuwait, September 25<sup>th</sup>, 1950

substituted by the younger generation, while the earlier opposition was, as described by the Political Agency annual report, "appear to have been too preoccupied with their own progress in profiteering to have time for politics."<sup>515</sup>

The country's administration, since the failed 1938-1939 unrests, continued to be dominated by members of the ruling family, particularly those close to the reigning Sheik. Despite the need for an integrated system of administration to match the rapid development of economic and social problems that the new wealth had introduced, governing through autonomous departments with a separate budget was the *modus operandi* throughout the 1950s. The number of departments grew over the years as the need arose, while coordination between the different departments, though ill-defined, was through a centralized Higher Council consisting of all department heads with equal say.<sup>516</sup> Though conflicts were not unusual, the Council's political solidarity was maintained by the members' close kinship.

It was nonetheless a fragmented organization unable to match the rapid development of the new infrastructure, economic realities, and social changes. Lack of formal government institutions to handle the mounting income and manage the more intense economic activities was conspicuous. As early as October 1951, the Political Agent thought it was time to institute a more sophisticated administration and a central State finances structure to streamlining the economic chain. He suggested a Council of Cabinet in charge of its internal affairs, including security, education, health, and economic development,<sup>517</sup>

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<sup>515</sup>Administration report of the Kuwait Political Agency for The Year 1945 p2, Qatar archive Coll 30/9(2) p105/1148

<sup>516</sup>Dr. Ghanim Al Najjar, Entry to the Political Development in Kuwait (Arabic) P.58

<sup>517</sup> Draft letter from Mr. R F Sarell to Sir Rupert Hay, Political



to replace the functional departments. The Sheik was less concerned and had no desire for any alteration. Not only did he not see the need for change, he resented the British interference in his internal affairs. He realized that significant changes to the administration would result in infighting between the members of the Ruling family in case of dramatic repositioning in their sphere of influence. He was not alone; substantial changes to the administration would have been opposed by the merchant community, who saw greater freedom for commercial and business enterprise in the present system. Despite the urgent need for a sophisticated administration that had control of the state finance at its core, public criticism was soothed by the speed and universality of change toward a new way of life that was satisfactory to most of the citizens of Kuwait.

Two years into his rule, the Sheik revived the functional boards prevalent in the 1930s. A number of the merchants and loyalists were elected to the boards, albeit by electors chosen by the Ruler, to administer the numerous departments. Many realized it was merely a gesture; the boards were unlikely to exercise effectively in departments controlled by well-established Sheiks.<sup>518</sup> Mounting public criticism of land grabs, the inefficient administration, port congestion, and the perpetual conflict between the departments encouraged the opposition, mostly the younger generation educated in Cairo and Beirut, to call for an elected Council. Although the old merchants' political drive had subsided, they supported the new movement, some publicly and some tacitly not to lose their lucrative government contracts. Members of the opposition circulated a petition in 1954 signed by many

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Resident, Bahrain, October 16<sup>th</sup>, 1951 (FO371/91283)

<sup>518</sup> Political Agent, Kuwait to Secretary of State for Foreign Affairs with list of Kuwait's principal officials, March 27<sup>th</sup>, 1954 (FO371/109810)

citizens of Kuwait demanding an "Elected Advisory Council." The petition was ultimately conveyed to the Sheik.<sup>519</sup>

Instead, the Sheik established in July of the same year the controversial Higher Executive Committee consisted of members from the younger generations of the ruling family and few of his close associates. Its sole mandate was to reform the administration and carry out a general reorganization of all Government Departments. It was with little surprise that its first order of business was to issue a Proclamation that addressed the controversy around State Lands in town and outside the gated wall. Land distribution and acquisition by the Government and the speculative rise in real estate prices had led to a land grab in the town and outside the walled city by those who could. In the absence of proper administration, necessary deeds were issued. The Committee, within a short time of its formation, declared in the summer of 1954 that:

"All the lands outside the town plan, which are owned by way of grants, are State Lands (or Amiri lands), and no one, whoever he may be, will have the right to own the land or dispose of it. Lands granted as from 10<sup>th</sup> October 1953, maybe not be sold and may not be registered, while the Government will have the right to recover it if the general interest so required."<sup>520</sup>

The Committee lifted the ban in February 1955 on publication of local newspapers reversing an earlier decision to stop all publication of newspaper imposed only a few months earlier.<sup>521</sup> Two weekly newspapers were soon

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<sup>519</sup> Dr. Ahmad Al Katieb, Kuwait: from Emirates to a State (Arabic), p. 190-195

<sup>520</sup> Proclamation of regarding state lands, July 20<sup>th</sup>, 1954 (FO371/109810)

<sup>521</sup> Mr. C A P Southwell, Kuwait Oil Company to Mr. L A C Fry, Foreign Office, with enclosures, February 21<sup>st</sup>, 1955 (FO371/114745)

in circulation but were subjected to governmental censorship. The opposition used the newspaper to initiate a call for a public meeting in a mosque to protest the administration's shortcomings, but the organizers, the National Cultural Club, were forced by the Government to call off the assembly,<sup>522</sup> fearing a possible clash between the demonstrators and the Public Security.<sup>523</sup>

The Higher Executive Committee, without the two most prominent family members, Sheik Abdulla Mubarak, head of security and the commander of its arm force, and Sheik Fahad Al Salam in charge of Municipality, public work, and health, as well as the president of the Development Board, soon elapsed. It was replaced in late 1955 by a new 10-members Supreme Board or (Majlis Al-Ala), consisting of all the Sheiks who had formerly been members of the dissolved Higher Executive Committee and all Department heads active at that time. The new Board would be responsible for all major policy decisions; it practically became the executive arm of the government. It recommended essential development projects and suggested changes to the administrations of governmental departments. It "dealt with matters of major importance, such as the Shatt-al-Arab scheme and the civil air agreement, but increasingly it had to deal with individual claims and complaints against the various departments."<sup>524</sup> Though the financial accountability was to a large extent rudimentary, the Board had managed to streamline the financial system; it had by the end of November 1956 introduced an active Audit Bureau and a budgetary plan

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<sup>522</sup>Sada Al Ayman newspaper, Kuwaiti newspaper published in Arabic, 27<sup>th</sup> May 1955

<sup>523</sup> Political Agent, Kuwait to Political Resident, Bahrain, June 7<sup>th</sup>, 1955 (FO371/114588)

<sup>524</sup>Political Agent, Kuwait to D M H Riche, Foreign Office, April 17<sup>th</sup>, 1956 (FO371/120550)

that mandated the Sheik's approval as a mean to control the runaway expenditure.<sup>525</sup>

The Board succeeded in governing the country in the unsettling period until the formation of the first ministerial Council in January 1962. In the words of the local Political Agent, the Board was "genuinely anxious to cut through the web of conflicting private interests which has threatened to strangle the improvement of Kuwait."<sup>526</sup>

### Development Plan

The availability of wealth and the Sheik's outlook to modernize the country in the shortest possible time became the driving force behind the ambitious development plan during the 1950s, resulting in a construction boom and the generation of considerable economic activities. The British firm Minoprio and Spencley, and Macfarlane was commissioned in 1951 to draw up the first master plan for the development of Kuwait town within the old wall and its expansion to the new suburban separated by a green belt. However, the most distinct manifestation of early infrastructural development in the first year of Sheik Abdulla Al Salam's reign was the award of a contract to a British firm to build a power plant and the largest water distillation plant in the world, costing over 5 million pounds.<sup>527</sup> Despite political pressure to pipeline water from nearby Shatt Al Arab, Kuwait Government's first objective was to increase freshwater supply in the town, produced within its

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<sup>525</sup>Kuwait Al Youm (Arabic), Official Gazette of the Government, November 1956

<sup>526</sup>Political Agent, Kuwait to Secretary of Foreign Office, October 19<sup>th</sup>, 1954 (FO371/109810)

<sup>527</sup>"A Croesus in Kuwait." Economist (London, England) December 8<sup>th</sup>, 1951: 1389+. The Economist Historical Archives, 1834-2014. Web. August 18<sup>th</sup>, 2018

borders. At last, the new plant relieved the country from importing water from the Iraqi rivers and marked the first time in its history that it had its water source enough for its population.

Practically all the works defined in the planning phase were monopolized in the early fifties by five large British contractors, locally known as the big-five, Taylor Woodrow, C. and D. William Press, Richard Costain, Holland, Hannen and Cubitt, and John Howard, while Lebanese firms mostly undertook smaller works.<sup>528</sup> All works were executed on a cost-plus 15% basis, with virtually no restriction on the final costs once the projects were in hand.<sup>529</sup> The Sheik had insisted that all contracting work of the five major British companies would only be allowed through an equal partnership with local firms. In reality, the local partners, who were all from the old merchant class and some with conflict of interest, charged up to seven percent of any project's cost, with virtually no commitments. To forestall mounting criticism, the British local authorities and advisors planned to widen the association of the economic development projects to the forty leading Kuwaitis merchants that mattered.<sup>530</sup> Despite the Development Board's intention, contracts remained exclusively in certain local and foreign hands.<sup>531</sup>

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<sup>528</sup> Record of meeting at Foreign Office to discuss Sir T Rapp's report on situation in Kuwait, June 22<sup>nd</sup>, 1953 (FO371/104272)

<sup>529</sup> Draft paper on Kuwait for a discussion at meeting at Foreign Office, on March 26<sup>th</sup>, 1953 (FO371/104380), and a letter from Political Agent, Kuwait to Mr. Fry, Foreign Office, April 5<sup>th</sup>, 1955 (FO371/114638)

<sup>530</sup> Record of meeting at Foreign Office to discuss Sir T Rapp's report on situation in Kuwait, June 22<sup>nd</sup>, 1953 (FO371/104272)

<sup>531</sup> "Spending from Government purse." *Economist* (London, England) July 2<sup>nd</sup>, 1955: 2+. The Economist Historical Archive, 1843-2014. Web. August 18<sup>th</sup>, 2018.

London's preference to set most of the oil income aside for investment purposes<sup>532</sup> was contested by General Hasted, the development expert. He convinced Kuwait's Government to commit to a five-year (1952-1957) Development Program, estimated at the cost of 91 million pounds, to construct schools, hospitals, government buildings, airport, drainage, and water system, to expand the ports, and build hotels and the first fire service.

The Sheik eventually consented to the British Financial Advisor's suggestion to form an autonomist "Development Board" to overlook plans and projects, execute the overall scheme, and track the general expenditure and those needed for the projects. The all-British Board faced many deliberate obstacles, including preventing some department directors from meeting with the Board.<sup>533</sup> Not until Sheik Fahad, the Ruler's influential brother, presided over the Development Board in November 1952 that it became the most influential institute of the fifties. Nonetheless, despite the Board's broad authority for the development scheme and its financial management, the Ruler insisted that all critical decisions were referred to him.<sup>534</sup>

Although most of the development works were completed, the contractors, as noted by Jill Crystal in her book, "all but fleeced Kuwait in the first year of operation, bringing the country to virtual bankruptcy by early 1950s."<sup>535</sup> Sheik Fahad complained that the companies' charges were excessive, but their local agents representing the contracting companies were

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<sup>532</sup> Simon Smith, *Britain's Revival and Fall in the Gulf, Kuwait, Bahrain and the Trucial States 1950-71*, Routledge Curzon, p. 9

<sup>533</sup> Dr. Ghanim Al Najjar, *Entry to the Political Development in Kuwait* (Arabic) P.57

<sup>534</sup> Draft letter from Mr. R F Sarell to Sir Rupert Hay, Political Resident, Bahrain, October 16<sup>th</sup>, 1951 (FO371/91283)

<sup>535</sup> Jill Crystal, *Kuwait: The Transformation of an Oil State*, Western Press p.24

understandably delighted.<sup>536</sup> To fend off the growing criticism for the high price and their greed, the contractors Complained of poor governmental administration and their obligations to pay 7% of the project cost to their Kuwaiti partner and agent.<sup>537</sup>

In a manifestation of the early bonanza year of the 1950s, the port was congested amid development projects, and despite the new desalination plant, an acute water shortage was experienced in the summer of 1953. Soon finger-pointing started, and demand for change became louder; the British authorities blamed the lack of proper administration set up and contractors' immune behavior. General Hasted, the development expert, angrily reacted on the eve of his departure in April 1954, "at the moment, chaos is supreme, with corruption a good second and engineering and ethical standards, except for the British's work, are of the lowest."<sup>538</sup> The Sheik ordered the contractors home and halted all nonessential spending; his Government was able to emerge with more careful spending policies by functioning departments and those closest to him once the crisis subsided.<sup>539</sup>

Although the British firms completed large infrastructure projects, the most beautiful edifice of that era was the Shewikh Secondary School, built west of Kuwait City by a Lebanese contractor. Beautiful curved buildings with Islamic architectural design, resembling the old universities of Europe, Student dormitories, a stadium,

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<sup>536</sup> Memorandum of points made by Sheik Fahad in conversation with the British Financial advisor, Colonel Crichton, on September 21<sup>st</sup>, 1953

<sup>537</sup> Annex to brief for British Prime Minister, May 1953 (FO371/104327)

<sup>538</sup> Letter from Hasted to Political Agent, Kuwait, April 3rd, 1954, HSTD 2/2)

<sup>539</sup> Jill Crystal, Kuwait: The Transformation of an Oil State, Western Press p.24

and sports clubs facing the sea were built on a substantial piece of land.

New trade laws were enacted to oblige all foreign suppliers to sell their products through a Kuwaiti agent. Meanwhile, foreign companies could only provide services through joint companies in partnership with a local merchant. A long list of annual projects ranging from roads, schools, hospitals, including much-needed tuberculosis hospital, sewage systems, electrical infrastructure, low-income houses, and port facilities were continuously listed in the weekly government gazette, *Al Kuwait Al Youm*, open to all local contractors. In most cases, the merchants took advantage of their closed knitted relationship, intimacy with the power, their long experience, and their ready capital to benefit from the new law and the new opportunities. Merchants' influence and clout were sustained and perhaps extended from their involvement in the many departments and committees that were the *modus operandi* of the local administration throughout the fifties.

The extensive contracting work brought a steady influx of professionals and laborers from Lebanon, Syria, Iraq, Iran, and other neighboring countries. By 1956 the number of immigrants in Kuwait was rapidly growing; not only masons and workers came, but also an increased number of senior officials, schoolmasters, teachers, doctors, nurses, engineers, police and security officers, lawyers, and judges, that came from Palestine, Egypt, and to a lesser extent from Syria and Lebanon. In one account, the number of schoolteachers for boys' and girls' schools was 115 Kuwaiti teachers while non-Kuwait teachers were ten times higher.

### **The Bid for British Advisors**



Sheik Abdulla Al Salam came under pressure to appoint a British financial advisor as soon as he was declared the Ruler by his family and the citizens of Kuwait. In their first congratulatory letter, the British authorities were quick to suggest the appointment of British advisors and consultants to assist him in the administration, managing his wealth and supporting him with the infrastructural projects.<sup>540</sup> The Political Agent blatantly outlined his country's fundamental motives; he stated that it was his government's wish to keep close to the Ruler and "increase their influence in Kuwait's internal affairs to achieve a closer hold over Kuwait's moral and material interests."<sup>541</sup> It was, as he put it, to guarantee an "unbroken supply of oil. Secondly, that the payment for oil remains in sterling, and that much of this sterling as possible is either channeled back by expenditure on sterling area goods and services or invested in sterling securities."<sup>542</sup> Despite the limitation of the 1899 treaty that handed the British Government full control of its external affairs, the hold on Kuwait's internal administration increasingly became a matter of HMG policy. The Foreign Office noted in a paper that "it is essential in the interests of maintaining our economy and standard of living to maintain our control of British oil interest in the Gulf, more particularly Kuwait."<sup>543</sup>

The Sheik recognized that it was inconceivable to properly execute the largest development projects in the history of his country with an old administration system coupled with a lack of experience and expertise. He

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<sup>540</sup> Political Agent, Kuwait to the Ruler February 21<sup>st</sup>, 1950 (FO371/82029)

<sup>541</sup> Political Agent, Kuwait, to L A C Fry, Foreign Office, August 15<sup>th</sup>, 1955 (FO371/114588)

<sup>542</sup> Political Agent, Kuwait, to L A C Fry, Foreign Office, August 15<sup>th</sup>, 1955 (FO371/114588)

<sup>543</sup> Policy in the Middle East, August 24<sup>th</sup>, 1958, Public Record Office (PRO), FO371/132545

consented at the end of 1951, with some reluctance, to the British government proposal to appoint a British financial advisor, an urban development expert, and a handful of British professionals. He handed them the management of the pressing State finances and the country's development scheme and the associated expenditure, but not the authority or formal powers to demand execution. There was admittedly a "latent dislike and suspicion of foreign advisors"<sup>544</sup> by the Sheik and his government. The British saw the work of experts as responsibility without executive powers, while the Sheik was perpetually concerned with intervention in his internal affairs and sensitive to possible alienation of the population already in sympathy with the rise of the Arab nationalist movement. As noted by the Political Resident, "we can peruse, advise, and cajole, but we cannot command."<sup>545</sup>

The Sheik succeeded, to a large extent, in resisting the British drive; he jealously kept the British out of his internal affairs and discouraged the Political Agent from interfering. The Foreign Office and the British Gulf officers were frustrated by their inability to convince the Sheik to appoint Senior British Advisor despite their urging. He withstood the British authorities' pressure to appoint more advisors, including a message in August 1953 from Winston Churchill, the Prime Minister at that time, considered by the Ruler as an encroachment on his country's internal affairs.<sup>546</sup> The Sheik showed little enthusiasm perhaps for fear of criticism of "the Iraqi and the Arab press as a veiled imperialism."<sup>547</sup>, and to a certain

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<sup>544</sup> Simon Smith, *Britain's Revival and Fall in the Gulf, Kuwait, Bahrain and the Trucial States 1950-71*, Routledge Curzon, p. 8

<sup>545</sup> Simon Smith, *Britain's Revival and Fall in the Gulf, Kuwait, Bahrain and the Trucial States 1950-71*, Routledge Curzon, p. 7

<sup>546</sup> Message from British Prime Minister to Ruler of Kuwait, (FO371/104329)

<sup>547</sup> Letter from Political Agent Kuwait to Political Resident Bushire, June 4<sup>th</sup>, 1946 (R15/5/213), Records of Kuwait 1899-

extent a reaction to the situation in Bahrain in which the British advisor had, in the words of the Political Resident, become "a prime minister."<sup>548</sup> Coming on the heel of the popular demand for the dismissal of the senior British advisor in Bahrain and the urge for independence from all western influence in the Arab world, Sheik's resistance was understandable.

Contrary to the general impression, the advisors were, upon the Sheik's insistence, private citizens recruited by his London representative. They were expected to be loyal to their employer and bounded by a contract that could be terminated, rather than seconded state employees with the British Government interests in mind. As observed by the Political Agent, the advisors' attitude reflected their allegiance to the local government; they "tend to show sturdy independence of His Majesty Government, and we must expect that they should consider their first loyalty to the local government."<sup>549</sup> Nonetheless, they were always liable to opposition by some of the Sheik's influential advisors or merchants with conflict of interest.

## **The Inception of the First Sovereign Wealth**

The more pressing challenge in the early fifties was the management of the new and the growing wealth. The handling of the rapid increase in the revenues from 1951 onward became the focus of the British Foreign Office. The change in the concession agreement to equal sharing of profit concluded in December 1951, and the expansion in oil production to offset the loss of Persian oil had

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1961, Selected and Edited by A de L Rush v2, Internal affairs 1921-1950 p538

<sup>548</sup> Letter from Lt-Col W R Hay Political Resident Bahrain to Secretary of State for India, June 7<sup>th</sup>, 1946 (FO371/52247)

<sup>549</sup> Letter from Political Agent, Kuwait to Political Resident, Bahrain, No 54/42/50, November 28<sup>th</sup>, 1950 (FO371/82010)

increased Kuwait's oil revenue from 12 million pounds in 1951 to 60 million the year after. Although no budgetary control was yet in place, a reasonable balance was maintained between current expenditure and invested reserves. According to a confidential dispatch on Kuwait Administration for 1951, its finances, despite the absence of financial experts, were reported by the Political Agent as prudently administrated.<sup>550</sup>

As the revenue leapfrogged to 60 million pounds in 1953 and 71 in 1955, its financial management became more complicated. The Foreign Office and the British authorities in the Gulf realized that the management of the new wealth would certainly be problematic for the rulers and his government with limited knowledge and capabilities. The growing wealth of the Sheik and the Government of Kuwait was a matter of considerable importance for the country and the sterling area but also a source of anxiety for the British authorities. In a memo, Mr. Logan of the Foreign Office warned in February 1953 of possible disturbance in the London market if Kuwait's investment was handled irresponsibly.<sup>551</sup> The Political Resident described the situation in late 1951 as "frightening"; he noted that "Kuwait's Government has eight million pounds laid up in the bank and are in future likely to receive fifty to sixty million pounds a year." He suggested that an expert guide the Ruler on the right lines regarding the disposal of his surplus revenue.<sup>552</sup>

Sir Roger Makins, from Foreign Office, reported his finding and his conclusion in February 1952 after meeting with the Sheik. He recommended that Kuwait should institute a strong budgetary and financial control system

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<sup>550</sup> Kuwait Administration Report for 1951 (FO371/98323)

<sup>551</sup> Mr. D A Logan, Foreign Office to Mr. R W Bailey, Washington, February 10<sup>th</sup>, 1953 (FO371/104340)

<sup>552</sup> Political Resident, Bahrain to Mr. G W Furlonge, Foreign Office, November 13<sup>th</sup>, 1951 (FO371/91300)

maintained by British political interference.<sup>553</sup> The Sheik priority was the local development, while the British were urging investment;<sup>554</sup> it was evident that Makins' aim was "to minimize expenditure and maximize surplus revenue." With what remained, Makins recommended that it "should be frozen or sterilized in London capital market."<sup>555</sup> Kuwait Government heeded Makins' recommendations, agreed to create the Development Board and agreed in October 1952 to institute the Kuwait Investment Board (KIO). Though the administration and control of the local Development Board was, to the dismay of the British authorities, kept in the Sheik's brother's hands, the KIO board was an all-British, headquartered in London.

The development program and ordinary expenditure did not absorb Kuwait's revenue; a surplus of 25 million pounds was available for investment in 1953 and a further 22 million in 1955. Even allowing for the most ambitious development program, the rapid growth of the country's surplus and the realization of a good return on his investment convinced the Sheik of the need to deploy the new wealth. He accepted the British Government's suggestion that the excess revenue would be invested "under control of an Investment Board in London which would be appointed by and act under the Ruler's instruction."<sup>556</sup> In February 1953, he appointed the Kuwait Investment Board to manage the first-ever sovereign wealth with its headquarters in London, initially entrusted

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<sup>553</sup> Paul Kingston Britain and the politics of modernization on the Middle East 1945-1958, p. 42, Cambridge University Press

<sup>554</sup> Draft paper on Kuwait for a discussion at meeting at Foreign Office, on March 26<sup>th</sup>, 1953 (FO371/104380), and a letter from Political Agent, Kuwait to Mr. Fry, Foreign Office, April 5<sup>th</sup>, 1955 (FO371/114638)

<sup>555</sup> Paul Kingston Britain and the politics of modernization on the Middle East 1945-1958, p. 43, Cambridge University Press

<sup>556</sup> Report on the administration situation in Kuwait, October 17<sup>th</sup>, 1952 (FO371/98325)

## RAGS TO RICHES

with 27 million pounds. British advisors dominated the new Board, H. T. Kemp (Sheik's representative in KOC), Lord Kenneth (a Director of the British Bank of the Middle East), Lord Piercy, requested by the Sheik from Bank of England, and Mr. C L Whishaw a partner in Ruler's London solicitor Freshfields, overlooked by the Finance Department in Kuwait.<sup>557</sup> By then, the local Finance Department had most of the financial matters in hand, including the relationship with the oil companies and management of the oil revenue deposits.<sup>558</sup>

The country revenue once again doubled; the Financial Department reported in 1959 a payment of 145 million pounds, but so did the expenditure, this time heavily incline toward land purchase. The Government spent an estimated \$800 million (300 million pounds) on land acquisition in the five years between 1957 and 1962, but very little was piped back into the local economy. Instead, generous land acquisition became the means to accumulate wealth. "By far, the larger part was remitted aboard either directly or indirectly through the banking system."<sup>559</sup>

Though it was not too obvious how the proceeds from oil were saved, there were indications that, except for a comfortable income that went to the ruling family, the money was spent on the development programs, public welfare, and investment. Mr. Loombe of Bank of England explained that the royalties were paid into the Financial Department's sterling account in London with the intention that the various Departments drew up a budget

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<sup>557</sup> Report by Mr. Strang for the Secretary of State for Foreign Affairs regarding Kuwait finances, January 26<sup>th</sup>, 1953 (FO/371/104269)

<sup>558</sup> Decree No 2 by the Ruler of Kuwait with note to Director of Finance, Kuwait, 1955 (FO371/114638)

<sup>559</sup> Jacqueline Ismael, *Kuwait Dependency and Class in Rentier State*, p. 103-104, quoting Fakhry Shehab, University Press of Florida

that catered for its expenditure on development projects and running expenses. Recommendations would then be made to the Ruler on the available surplus for investment.<sup>560</sup> The Finance Department reported that out of a revenue of close to 60 million sterling in 1954, two-thirds were reserved for new development, while most of the remaining were entrusted to the investment board.<sup>561</sup>

Kuwait continued the conservative investment policy in the western economy, despite frequent calls and pressure from the British and from the League of Arab States, to redirect the investment into the Arab countries. It soon became a matter of the Government policy, though undeclared, to invest a third of annual revenue in the British Government securities<sup>562</sup>.

The size of the accumulated wealth and its investment portfolio was anybody's guess. Kuwait Government was not willing to disclose its holding, but The Economist reported in December 1961 that Kuwait overseas holding was about 240 million pounds, held in Britain, United States, Japan, Norway, Switzerland, Germany, Egypt, Lebanon, and Jordan, estimated to bring to the state 12 million pounds a year. The importance of Kuwait's investment in the sterling area, estimated in 1959 at a quarter of Britain's gold and foreign exchange holdings, became part of Britain's financial policy and provided critical support for the British currency. Its significance was noted by the Prime Minister, Harold Macmillan, in July 1958, describing it as "the key to the economic life to Britain- and of Europe."<sup>563</sup>

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<sup>560</sup> Bank of England to Mr. C M Rose, Foreign Office, November 18<sup>th</sup>, 1952 (FO371/98400)

<sup>561</sup> "Arab Wealth from Oil." Economist (London, England) February 27<sup>th</sup>, 1954: 591+. The Economist Historical Archive, 1843-2014. Web. August 18<sup>th</sup>, 2018.

<sup>562</sup> Memorandum on Kuwait by Mr. L A C Fry, Foreign Office, April 4<sup>th</sup>, 1955 (FO371/114603)

<sup>563</sup> Simon Smith, Britain's Revival and Fall in the Gulf, Kuwait,

Ultimately the Sheik passed the oil revenue to the State; Kuwait Constitution, ratified by the Sheik in 1962, decreed that "all of natural wealth and resources are the property of the State. The State shall preserve and properly exploit these resources". The oil income and the spending by the Executive Branch became answerable to the parliament; Kuwait did at last move away from the feudal economic structure and into the governments of the twentieth century.

### **Al Arroba<sup>564</sup> : The Pan-Arab Nationalist Movement**

The slow anti-imperialist movement in the thirties finally exploded into nationalist movements throughout the Middle East. The attitude in the Arab world turned hostile toward Great Britain, stirred by the British bias and their imperious behavior in Egypt, Iraq, and Palestine. In Kuwait, the population, particularly the younger generation, was greatly influenced by the emerging Pan-Arab Nationalist movement or "Al-Arroba" driven during the 1950s by Egypt.

Sheik Abdulla Al Salam's liberal outlook allowed different political movements to emerge. Besides the Pan-Arab Nationalists, the Islamic movement, the Kuwait Nationalists, and even more leftist groups were ready to play a vital role in Kuwait's political stage. They were allowed to establish headquarters or clubs to pursue their activities, and some were vigorously recruiting new young members from the schools in Kuwait. Owing to the developments in the region, Pan-Arab was the dominating opposition in Kuwait.

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Bahrain and the Trucial States 1950-71, Routledge Curzon, p. vi, preface

<sup>564</sup> Al-Arroba: Passionately describe Pan-Arab nationalism throughout the Arab countries during the fifties.



Nationalist and Pan-Arab groups: Teachers Club, the Graduate Club, and perhaps the most influential political entity, the Cultural Club had sprung in sympathy to Nasser's anti-British drive once the Sheik had loosened his government grip. The nationalist groups unified their drive through a new organization, "The Clubs Union Committee," representing all the local clubs to direct the activities of the nationalist and the pan-Arabist movements.<sup>565</sup> Frequent demonstrations erupted in Kuwait and many Arab capitals against the formation of the Bagdad Pact in 1955, perceived as a colonialist, and against the British and the French, with intensity and zeal during Suez War in November 1956.

British ultimatum to Egypt to return the Suez Canal to pre-nationalization status and the eventual attack on Egypt in early November 1956 profoundly impacted most Arab countries, including Kuwait. The Triple Attack, as passionately called, on Suez intensified the anti-British and anti-French sentiment throughout the Arab World. The Committee of Clubs distributed pamphlets, once the Government censored the only two newspapers, calling for strikes and mass meetings. Despite Government's announcement that the strike, demonstration, and meetings were banned, there was a large gathering of about 4000 demonstrators outside the Cultural Club. Mass closure of the market and disorder followed by a brief clash between security police and demonstrators in the center of Kuwait.<sup>566</sup>

The Government managed to put the lid on further disturbance and maintained law and order, though with some difficulty, and prevented possible sabotage of the oil facilities. Meanwhile, the Oil Company was contemplating

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<sup>565</sup> Saeed Hashim, *The Influence of Iraq on the Nationalist Movements of Kuwait and Bahrain 1920-1961* p. 404

<sup>566</sup> Simon Smith, *Britain's Revival and Fall in the Gulf, Kuwait, Bahrain and the Trucial States 1950-71*, Routledge Curzon, p. 12

the temporary evacuation of the British and other Europeans from Kuwait. The British authorities, apprehensive of the local security forces' loyalty in case of conflicts with anti-British demonstrators, were compelled to dispatch cruisers and frigate to the Kuwaiti waters as precaution measures, but their intervention was not requested.

Opposition to the British action was high amongst all classes of Kuwait's population, perhaps most vigorous among the young intellectual elites educated in Beirut and Cairo. Tension gradually eased, and the Committee of Clubs soon announced: "that their protests campaign would henceforth be on completely peaceful lines."<sup>567</sup> They called for a boycott of English and French goods and services. The British feared that any sanction might include restriction of Kuwait's crude shipment to Britain or exposing KOC's facilities to sabotage. The Committee collected over a million pounds in support of Egypt's war efforts, including a generous donation from Sheik Abdulla himself and his family.

The Sheik managed to balance the need to quell the vocal demands to support Nasser, a hero in the eyes of the Arabs, and his government's commitment to protect British interest. Kuwait Government's action to avoid restriction of oil shipments and the security forces protection of the oil facilities mitigated the need for risky British government interference. British military interference would have, from the point of view of an observer in the Foreign Office, amounted to a "second Port Said operation."<sup>568</sup>

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<sup>567</sup> Description of internal situation of Kuwait, Kuwait Diary no 12 by Mr. G W Bell, Political Agent, Kuwait covering the period November 29<sup>th</sup> to December 23<sup>rd</sup>, 1956 (FO371/120551)

<sup>568</sup> Minutes of meeting, K.R. Oakeshott, December 14<sup>th</sup>, 1956 FO 371/120619

The tide of "Nasserism, or Nassireyah," and Nasser's call for unity of Arab countries was on the rise, ultimately resulted in the formation of the United Arab Republic (UAR) between Egypt and Syria in February 1958. The nationalist movement in Kuwait (political clubs, trade unions in the oil sector, and the local newspapers) sustain the widespread support for nationalism, Nassireyah, and unity of the Arab countries, but short of a call to join the new United Arab Republic (UAR). Interestingly the Foreign Office strategists were bracing for the eventually that Kuwait would join UAR. In that case, the Foreign Office recommended the occupation of Kuwait rather than the loss of the most essential source of Middle East oil.<sup>569</sup>

The Nationalist influenced peaked in 1958; the formation of the first Arab Union between Egypt and Syria, the overthrow of the Kingdom in Iraq, replaced by a Republic, gave the Clubs credibility and clout. A populist delegate from the Clubs visited Bagdad to meet Qassim and congratulate the revolutionaries in the aftermath of the overthrow. However, the atmosphere of liberal politics ended abruptly in February 1959, when prominent politicians from Kuwait and Egypt gave speeches and rhetoric in Kuwait's largest stadium attended by 20,000 people to commemorate the first year of unity between Egypt and Syria. Speeches glorifying the new unity as a first step toward the broader aspiration of all Arab population was familiar enough, but demands made by the speakers for the transformation of Kuwait from a feudal form of administration to a more democratic government seem to have touched a nerve. In an out of character move by the liberal Sheik Abdulla Al Salam, the Higher Committee abruptly banned youth clubs, including sport clubs and all newspapers.<sup>570</sup>

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<sup>569</sup> Policy in Middle East, August 24<sup>th</sup>, 1958, Public Records Office (PRO), FO371/132545, p.5

<sup>570</sup> Dr. Ahmad Al Katieb, Kuwait: from Emirates to a State

## Resistance to Unity with Iraq

A new Arab Union, "The Arab Federal Union" between Iraq and Jordan, both ruled by the Hashemite dynasty, was formed on February 14<sup>th</sup>, 1958, to rival the more prominent United Arab Republic (UAR). The limited financial capabilities of the new Union were evident from its inception. Although Jordan was responsible for contributing a mere 20 percent of the Union's budget, it was incapable of availing its share. The Iraqi Prime Minister, Nuri Al Saed, counted on inducing Kuwait to join the new Federation to relieve the new Union's economic difficulties; he realized that the survival and the stability of the new Union rested on Kuwait's participation. Nuri Al Saed, a former Ottoman official, with an attitude like most Iraqi officials, continued to view Kuwait as part of Iraq. His mindset was bound to cause enough anxiety and apprehension in London and Kuwait that Iraq would use the new alignment to undermine Kuwait's sovereignty.<sup>571</sup>

Despite the pressure from Iraq and the British Ambassador's suggestion to the Foreign Office in London, the Sheik refused to join the new Union of Iraq and Jordan. The Foreign Office contradicted Ambassador Sir Michael Wright's deliberation that Kuwait could benefit from its association with the Union. The Foreign Office recognized that the Union held no tangible benefits for Kuwait's Government and was not ready to pressure the Sheik. The Sheik was not even willing to discuss the matter during his visit to Bagdad in May 1958. His suspicion that the "sole intention was to lay their hands-on Kuwait's economic resources"<sup>572</sup> and the fear of Iraq's

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(Arabic), p. 203-204

<sup>571</sup> Roby Barrett, *Intervention in Iraq, 1958-1959*, Middle East Institute, April 1<sup>st</sup>, 2008

<sup>572</sup> Mr. A S Halford, Political Agent, Kuwait to Foreign Office,

territorial intention was understandable. The unceasing Iraqi officials' statements that Kuwait was part of Iraq and Iraq's refusal to demarcate the borders precipitated Kuwait and London's apprehension that it might eventually lead to Iraq's annexation of Kuwait.

The stigma attached to the Kingdom of Iraq as colonialists alienated the nationalist in Kuwait and the Arab population.<sup>573</sup> Though there was some residual sympathy for Iraq that stemmed from the long-standing social and commercial ties with Basra and Zubair, most Kuwaitis were lukewarm toward the prospect of joining Iraq and Jordan for fear of depressing their newly attained high income.<sup>574</sup> Sheik's refusal to be drawn into the Union was in tone with the prevalent sentiment in Kuwait and the other Arab countries, decidedly inclined toward the rival United Arab Republic. Unlike 1938, Iraq was no longer viewed as the hub of Arab nationalism; Cairo took over this role after the 1952 Egyptian revolution, while the formation of the Bagdad pact, considered to be a British institution, relegated Iraq in the Arab popular views to that of a reactionary government.

The fear of the Iraqi prime minister's persistent demand to force Kuwait into the Union promoted the Sheik to request the British Government's approval of his proposal to join the Arab League. What seemed to have triggered his initial thoughts of joining the League was his desperate need for support to resist the pressure he faced during his visit to Bagdad in May 1958. As described by the Foreign Office in August 1958, he "felt alone in the world when he

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JULY 31<sup>ST</sup>, 1958 (fo371.132786)

<sup>573</sup> Memorandum by Talcott Seely, American Consul, Kuwait entitled "Current Kuwait-Iraqi Relations Affecting Future Federation Prospect", February 23<sup>rd</sup>, 1958 (FO371/132774-6)

<sup>574</sup> Memorandum by Talcott Seely, American Consul, Kuwait entitled "Current Kuwait-Iraqi Relations Affecting Future Federation Prospect", February 23<sup>rd</sup>, 1958 (FO371/132774-6)

faced the Iraqi Prime Minister, Nuri Al Saed, in Bagdad and then HMG was close to the Iraqis.”<sup>575</sup> Obviously, the Sheik was under severe pressure during his meeting in Bagdad to join, but equally clear that he had no intention to do so. The Sheik felt the great benefit of his country’s joining the Arab League since he could resolve problems within the Arab domain without the British’s intervention. He requested the British Government’s approval, hoping that the “HMG would see its advantage to both his State and Her Majesty’s Government” while preserving the special relationship with Britain.<sup>576</sup>

Nuri Al Saed, the Prime Minister of the Union, was meanwhile adamant in his demand to force Kuwait into the Union one way or another. He suggested to the British Minister, Selwyn Lloyd, that Britain should grant Kuwait its independence, while Iraq guarantees Kuwait’s investment in London. Britain shared the same fears as the Sheik over membership in the Arab Union. Lloyd’s reaction was lukewarm; in his message to his Prime Minister, he noted that Nuri had “asked Britain to declare the independence of Kuwait, and at the same time we were to order her into the Union.”<sup>577</sup> Otherwise, as Nuri forcefully informed the British, the Union would take some action.<sup>578</sup> His demand for Kuwait to receive independence, join the Union, and provide annual financial aid was outlined in his May 1958 letters to both the British and the US Governments. He elaborated that if his proposal was not approved, his Government reserved the right to act independently. Iraq would deny Kuwait’s current frontier

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<sup>575</sup> Supplementary note concerning proposed Kuwaiti membership of the Arab League, August 6<sup>th</sup>, 1958 (FO471/132786)

<sup>576</sup> Mr. A S Halford, Political Agent, Kuwait to Foreign Office, July 31<sup>st</sup>, 1958 (FO371/132786)

<sup>577</sup> PRO: Prem 11/2403: Federation of Arab Union and Association of Kuwait with Union, March 8<sup>th</sup>, 1958

<sup>578</sup> CNN interview with King Hussain in August 1990

status, and her dependence on Iraq renewed, as during the Ottoman era.<sup>579</sup>

Nuri Al-Saied was ready to send his army into Kuwait in anticipation of possible diplomatic failure and wished to secure Kuwait's membership of the Arab Union at all costs. Despite the continuation of diplomatic contacts between Iraq, Britain, and Kuwait, Chief of General Staff in King Feisal II government, Ghazi Al-Daghestani, reported during his trial after the 1958 revolution that the Iraqi Government had organized a plan, "Operation Al-Mighwyr" to occupy Kuwait during summer 1958.<sup>580</sup>

Change of Government in Iraq once King Feisal and his Prime Minister were violently overthrown by a military coup on July 14<sup>th</sup>, 1958, perhaps saved Kuwait from early occupation and negated the Sheik urgent need to join the Arab League. He had to wait for the next round of conflict with Iraq, after its independence, for Kuwait to finally join the League.

## **The Gold Trade with India**

Despite the oil revenue, the trading legacy was still alive. The merchants continued to transit and to re-export European and Japanese goods to the neighboring markets of Saudi Arabia, Iran and Iraq for the next decades until replaced by other Gulf ports. However, the most controversial and lucrative trade in the early fifties was the illegal gold exported to India. The temptation of large profits from gold smuggling was hard to resist; the price of

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<sup>579</sup> Kannah, K. Al-Iraq Amsihi wa Ghadihi, Dar al-Rayhani Lil Tibaah Wa Nashir p. 298, cited in Saeed Hashim, The Influence of Iraq on the Nationalist Movements of Kuwait and Bahrain 1920-1961

<sup>580</sup> Al-Shab Newspaper, Bagdad No. 43, the 4th September 1958, cited in Saeed Hashim, The Influence of Iraq on the Nationalist Movements of Kuwait and Bahrain 1920-1961, p.400

gold in the Indian market was, at times, double the world prices because of local taxes.

The Indian Government only allowed licensed Gold into India, but the smugglers from Kuwait and other Gulf merchants were continuously circumvented the imposed prohibition by the Indian Government. The Indian authorities estimated the smuggled gold by the Kuwait merchants to around 5000 kilos a month, with a value of 15 million pounds.<sup>581</sup> Physical gold was imported by air from Switzerland into Kuwait through Beirut before arrangements were made to smuggle it into India in the local wooden boats. The Political Agent reported as early as March 1950 that the Civil Aviation in Kuwait unloaded 300 kilograms of gold from the scheduled Middle East Airline's plane<sup>582</sup> ready to be smuggled into India.

Synchronously with gold smuggling to India was "the smuggling out of India of rupees, largely the proceeds of the sale of the smuggled gold."<sup>583</sup> The continuous smuggling of physical rupees into Kuwait and the substantial reduction of the oil company's needs for rupees once their payment to Kuwait's Government was replaced by sterling in December 1951. The change in the oil company's payment currency resulted in a large amount of physical Indian rupees in Kuwait's market and an acute shortage of sterling. The imbalance between the two currencies and the need for sterling to purchase goods from European and Asian markets forced the local banks to repatriate 130 million rupees in 1951 alone back to the Indian Banks despite the Indian Central Bank objective<sup>584</sup>.

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<sup>581</sup> Kuwait Administration Report for 1951 (FO371/98323)\_

<sup>582</sup> Letter from Political Agent, Kuwait to Sir Rupert Hay, Bahrain, March 31, 1950 (FO371/82047)

<sup>583</sup> Note by G M Strover on sterling and rupee balances, December 21<sup>st</sup>, 1952 (FO371/104339)

<sup>584</sup> Note by G M Strover on sterling and rupee balances,



The reluctance of the Indian Authorities to repatriate the ever-increasing surplus of rupees in Kuwait caused by trafficking was understandable. The Reserve Bank of India, though unsuccessful, enforced restricted measures to combat the prevailing smuggling activities and to stop a run on its sterling reserves. The Indians complained bitterly of gold trafficking, but the British argued that "the Indian Government to intensify their preventive measures,"<sup>585</sup> rather than restricting exchange.

To counter the run on their reserves, the Indian Reserve Bank refused to grant general permission for the Gulf countries to repatriate their rupees. They deliberately delayed the repatriation of the accumulated rupees in 1952, resulting in the build-up of a surplus of rupees in the two banks in Kuwait and a severe shortage of sterling needed by the merchants and traders. The restriction imposed to limit the repatriation of rupees did somewhat slowed down the smuggling activities. It forced the Government of Kuwait in 1953 to temporarily provide the Sterling required by the merchants and traders to cover the accelerated needs to sustain the development program and, in turn, reduce the available funds for investment.

Unable to control the gold smuggling, the Reserve Bank of India issued in 1959 special rupee notes circulating outside India, mainly in the Gulf territories. The new complication of handling the rupees by the Gulf merchants seemed to stem the smuggling of gold and was perhaps the last straw that convinced the Kuwaiti authorities to issue their currency in April 1961, just three months before their agreement with the British Government to replace the 1899 Treaty. The new currency, the Dinar, was equated exactly to a British Pound, 13.33 Indian Rupees, or 2.488 grams of pure gold. More than 340 million

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December 21<sup>st</sup>, 1952 (FO371/104339)

<sup>585</sup> Political Resident, Bahrain to Mr. Greenhill, Foreign Office, January 2<sup>nd</sup>, 1953 (FO371/98399)

## **RAGS TO RICHES**

Rupees were repatriated to the Indian Central Bank, replaced by British sterling paid back in installment.<sup>586</sup>

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<sup>586</sup> Hamza Abbas, The Ex-Governor of Kuwait Central Bank "Nashat lakem", p 57

## 11 End of the Empire in the Middle East

*"In the Gulf not even the rising stars of the United States could outshine the British might"<sup>587</sup> Political Agent's Kuwait Administration report for 1951*

The British interest in the Gulf, since its inception in the 17<sup>th</sup> century, was founded entirely on commerce and trade, eventually evolved in the 18<sup>th</sup> and 19<sup>th</sup> into political hegemony and a protective gateway to India. They fought off other Europeans, most intensely the Dutch, for trade domination of the Gulf and circumvented the other Europeans' threat, most notably Napoleon's attempt to breakthrough to India. They eventually brought all the territories surrounding the Gulf under their domination and fortified their presence and influence in the 19<sup>th</sup> century once all the Gulf's Sheiks surrendered their external affairs to the British Government.

The British eventually broaden their presence and domination to include Iraq and parts of Syria after the collapse of the Ottoman Empire at the end of World War One. Lord Kitchener, the British Secretary of State for

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<sup>587</sup>Kuwait administration report for 1951, (FO371/98323)

War, had always maintained that Britain should seize the Arab-speaking part of the Ottoman Empire for herself alone. New territories governed for centuries by Istanbul were added to the British Empire as spoils of the war, validated by mandates from the League of Nations. They extended their influence over Jordan, Palestine, and Iraq, including the oil-rich province of Mosul, and strengthened their control over territories surrounding the Gulf. By 1920, the post-war British Empire was at the zenith of its domination of the Middle East, but soon it started its descent even before the breakout of World War Two. No sooner than they established their dominance over the old Ottoman Arab lands, violence erupted in Iraq, Egypt, and elsewhere.

The Americans withdrew politically into isolation when it refused to join the League of Nations, but they insisted on economic participation through Open-Door Policy that became the cornerstone of American involvement in the Middle East's oil concessions. The rivalry between Great Britain and the United States during the interwar period was reduced to an economic contest over shares of oil concessions in Iraq and the Gulf Arab States. The British conceded to the US State Department's insistence on the Open-Door Policy after a decade of resistance to the entry of the American oil companies. The influential American oil companies backed by State Department expanded rapidly in the region; their influence in Arabia was soon manifested when the Saudis awarded their oil concession in 1933 to an All-American oil consortium outbidding financially and politically the British-dominated group, Iraq Petroleum Company.

Second World War dynamic and the Allies' desperate need for United States' backing during the war and financial assistance once the war ended weakened the British Government. Only thirty years from its peak power

in 1919, the Empire was facing upheaval in India and its colonies in Africa and the Far East. The evolving economic crisis led the post-war Labor Government to exit India and adopt a non-intervention attitude in its colonies as an alternative means of preserving British power.<sup>588</sup> However, Labor's Foreign Secretary Ernest Bevin's attempt to transform the system of dominance maintained by treaties and concessions in the Middle Eastern countries to equal partners failed.<sup>589</sup> Soon, the pre-war policies toward the Middle East were revived. Bevin believed that "Britain's role in that part of the world was of such long-standing that it was taken for granted by most Englishmen as part of the natural order." The new British colonial policy was recalibrated in the Middle East to control resources, mainly oil, and regulate trade routes through the Suez Canal. He resolutely retained and defended the British sphere of influence and reinstated the old policy of keeping the other Western powers out. He reflected his attitude to his advisors that he "wanted to keep the Middle East predominately British and exclude the United States from the area."<sup>590</sup>

The British, despite their victory in the war, were financially stripped and perhaps psychologically exhausted. The massive World War Two expenses, ensuing economic weakness, and the \$3.75 billion loan from the United States forced the British Government to rely more on the US. The Foreign Office realized the need to harness the growing American power and financial strength to

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<sup>588</sup> Louis, William Roger. *The British Empire in the Middle East 1945-1951: Arab Nationalism, the United States and Postwar Imperialism*, p. vii, Clarendon Press Oxford

<sup>589</sup> Louis, William Roger. *The British Empire in the Middle East 1945-1951: Arab Nationalism, the United States and Postwar Imperialism*, (introduction), Clarendon Press Oxford

<sup>590</sup> Simon Smith, *Ending Empire in the Middle East: Britain, the United States and the Post-War Decolonization, 1945-1973*, Routledge, London p. 11

improve the British position<sup>591</sup> but short of allowing US Government to intrude on their sphere of influence or allow Washington further control of Middle East oil. Pragmatically, they encouraged the Americans to be more interested in the Middle East in ways that could help London to attain its interest, namely its "ultimate security and economic well-being."<sup>592</sup> However, once the US supplanted the British in Iran and undermined their political influence in the Middle East, the British, despite their earlier nudge, resented the US growing encroachment on their sphere of influence. The British realized the increasing disparity of their respective power and pragmatically viewed future alignment with the American as a matter of policy; Winston Churchill summoned it up in his warning after the Suez conflict that "We must never get out of step with the Americans-never."<sup>593</sup>

Alteration of the sphere of influence amongst the victors themselves was inevitable. The European loss of power after the fall of Berlin enhanced the United States and Russia's dominance. Britain's post-war financial difficulties made it hard for London to provide economic assistance to Turkey and Greece; instead, US President Truman requested Congress for \$400 million appropriations to those territories fearful of Soviet takeover. Although British influence in Southern Europe lingered a little longer, the Truman Doctrine "signaled the end of British dominance in the Near East and a new role for the United

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<sup>591</sup> Reynolds, David. *In Command of History: Churchill fighting and writing of Second World War*, Allen Lane, London

<sup>592</sup> Marsh, Steve, *Anglo-American Crude Diplomacy: Multinational Oil and the Iranian oil Crisis, 1951-53*, *Contemporary British History*, 25-53

<sup>593</sup> D. r. Thorpe, *Eden The Life and Times of Anthony Eden First Earl of Avon, 1897-1977*, Pimlico, p. 541

States.”<sup>594</sup>. US clout and influence became even more conspicuous during the nationalization of Iran’s oil company in the early 1950s. The Americans gradually replaced the British historical influence in Iran that had extended over a couple of centuries once Mosaddeq fell and the Shah’s immediate return. The Russians, meanwhile, replaced the British reign in Egypt, Syria, and to some extent, in Iraq once the Suez conflict settled down.

The end of World War Two was marked by India’s independence and the rapid decline the colonization and imperialism around the globe, and the rise of nationalist sentiment and demand for autonomy. Middle East was no exception. The British difficulties in the Arab world were exacerbated by the escalation of the conflict in Palestine. Signs of rebellion were evident even before the break of World War Two. The British position was challenged in Iraq just as World War Two intensified in Europe, and the anti-British sentiment was becoming more vocal and in the open. In April 1941, the pro-British Hashemite Government in Bagdad was briefly replaced in a military coup with Iraqi Army officers, headed by Rasheed Al Gaylani, more in sympathy with the Germans. The British Army restored to force, occupied Basra and Bagdad, and reinstated the young King and the old Government that had earlier fled the country.

The rise of nationalist fever soon led to a military coup in Egypt on July 23<sup>rd</sup>, 1952. The “Free Officers Movement” led by Jamal Abdul Nasser disposed of King Farouq and forced him into exile. The British signed the Anglo-Egyptian Agreement in October 1954 to evacuate the British forces from the Suez Canal, one of Britain’s most vital assets. Though Suez continued to be critical for

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<sup>594</sup> Simon Smith, *Ending Empire in the Middle East: Britain, the United States and the Post-War Decolonization, 1945-1973*, Routledge, London

global trade and, particularly for British maritime trade, the strength of the British presence had by the mid-1950s shifted away from Egypt to Bagdad and Amman in Jordan; Egypt, meanwhile, was evolving as an adversary to the British colonialism.

The British developed and adopted the Bagdad Pact, which included Iran, Pakistan, and Turkey beside Britain and Iraq, as an umbrella to sustain Britain's influence and as a protective belt against communist encroachment. The Pact signatory ceremony was held on November 21<sup>st</sup>, 1955, to counter the surge in Arab nationalism, but it soon backfired. The new organization infuriated Nasser and was perceived immediately in the Arab countries as a British apparatus. Even in Iraq itself, riots erupted against the Pact. For six days, open trouble in Bagdad and the holy city of Najaf broke out<sup>595</sup> while Cairo's Voice of Arab Radio Station continuously encouraged a revolt against Nuri Al Saed, Iraq's Prime Minister.

US leadership had by then become more entangled in the affairs of the Middle East despite their apparent reluctance. Unlike Woodrow Wilson's demand for self-determination for countries under colonial dominance at the end of the First War, Washington was more inclined to replace the colonial powers at the end of the Second World War. US President Franklin Roosevelt was ready to extend American political influence to the territories surrounding the Gulf. Though the Americans considered the protection treaties "anachronism,"<sup>596</sup> the British were not prepared to abandon the Gulf and its oil. Few months after his premiership in 1955, Anthony Eden was clear in his statement that the British "interests in the Middle East

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<sup>595</sup> Time Magazine, November 26<sup>th</sup>, 1956

<sup>596</sup> Simon Smith, *Ending Empire in the Middle East: Britain, the United States and the Post-War Decolonization, 1945-1973*, Routledge, London p. 36



are greater than those of the United States because our dependences on Middle East oil and our experience in the area was greater than theirs.”<sup>597</sup> Gulf’s oil was perceived by the British as the single greatest asset and was a matter of life and death as stressed by the Prime Minister in 1956; “we have to have our oil and that we are prepared to fight for it.”<sup>598</sup>

### **Nationalization of Oil: Mosaddeq of Iran**

British strategical priorities shifted from direct hegemony over India to control of Gulf oil resources and the Suez Canal, through which the Gulf oil was shipped to Europe. The British were challenged in both but with different outcomes.

Dr. Mohammad Mosaddeq’s drive to nationalize the Anglo-Iranian Oil Company (AIOC) amplified the nationalistic sentiment in the Middle East in the early ‘50s. His drive only led to more American influence in Iran and altered the region’s oil production profile.

The Persians resented the growing sense of the unfair distribution of the oil revenue between the Government of Iran and the Anglo Iranian Oil Company (AIOC). Their anger toward AIOC unified the Iranian political spectrum in denouncing the arrangement, in which the Government received in 1947 seven million pounds in royalties, while the British government had 15 million pounds in income tax alone.<sup>599</sup> The reigning Iranian Prime Minister Ali

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<sup>597</sup> Simon Smith, *Ending Empire in the Middle East: Britain, the United States and the Post-War Decolonization, 1945-1973*, Routledge, London p. 36

<sup>598</sup> Simon Smith, *Ending Empire in the Middle East: Britain, the United States and the Post-War Decolonization, 1945-1973*, Routledge, London p. 51

<sup>599</sup> Christopher De Bellaigue, *Patriot of Persia*, Muhammad

Razmara desperately appealed to AIOC to address the most criticized issues in the Parliament (Majlis): for his government to be allowed to “inspect the company’s books especially that Iran owned 20% of AIOC”<sup>600</sup>. AIOC’s board, still one foot in the colonial era, refused despite a similar appeal from the US State Department to the Foreign Office. It was the perpetual notion in the British mind that “Iran’s oil was by right British oil and found the Iranian demand to reclaim it outrageous.”<sup>601</sup>

AIOC was ready to negotiate a supplementary agreement but would not submit to the demand for a 50/50 profit-sharing arrangement that was already in effect in Venezuela and eventually concluded between the Saudi government and Aramco in December 1950. The supplementary proposal was nowhere near the profit-sharing; by the time AIOC, under pressure from the Foreign Office, came around in January 1951 to agree on the 50/50 formula, it was too late.

The influential Parliamentary Petroleum Committee in the Majlis rejected the supplementary agreement; instead, the Nationalist members under Mosaddeq’s leadership tabled a motion in December 1950 calling for nationalization of the AIOC that included a fair compensation and was soon backed by a religious decree (fatwa) issued by Ayatollah Kashani. In Mosaddeq’s words, the call for nationalization of AIOC and its shareholders’ compensation was inspired by the nationalization of the British railway, coal, steel, and health industry by the

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Mossadegh and a Tragic Anglo-American Coup, An Imprint of Harper Collins Publisher p. 130

<sup>600</sup> Fariborz Mokhtari, Iran’s 1953 Coup Revisited: Internal Dynamics Versus External Intrigue, Middle East Journal, V62 No3 (Summer 2008) p. 467

<sup>601</sup> Fariborz Mokhtari, Iran’s 1953 Coup Revisited: Internal Dynamics Versus External Intrigue, Middle East Journal, V62 No3 (Summer 2008) p. 467

Labor Government in Britain.<sup>602</sup> The Majlis unanimously passed the nationalization bill on the eve of the Persian New Year on March 20<sup>th</sup>, 1951, setting the stage for long and arduous confrontation.

Mosaddeq was convinced that full independence, the rule of law, and eradicating political and financial corruption could only be restored in the absence of all foreign concessioners. He believed, mistakenly or otherwise, that nationalization was the cornerstone of nation-building and blamed the economic failure and hardship of Iran's population on foreign meddling in Iran's internal affairs. The economic concessions blitz in Iran that started in the Qajar era in the last quarter of the 19<sup>th</sup> century had prejudiced his views that progress was not attainable, so long foreign concessions were active. But the British were not ready to let go. IOC was an enormous economic significance for them. Abadan refinery was the largest single British overseas investment; its tax revenues from AIOC were an essential source of income for Britain's post-war economy.

Fair compensation and the promise of full access of the British Government and AIOC to the Iranian oil was included in the Nationalization bill; however, the British Government and the company rejected the offer. Despite the legality of the Irani offer "to nationalize its resources within its territory and the just compensation," Sir Anthony Eden considered nationalization as "stealing British property," while the reigning Labor Prime Minister Clement Attlee argued that "nationalization was an illegal violation of an agreement concluded freely by both parties."<sup>603</sup> On the other hand, the UK leftist papers

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<sup>602</sup> Musaddiq Memories, Translated by S H Amine and H Katouzian, p.32

<sup>603</sup> Christopher De Bellaigue, Patriot of Persia, Muhammad Mossadegh and a Tragic Anglo-American Coup, An Imprint of Harper Collins Publisher p. 158

sympathized with Iran's view, stating that "the proportion of profits retained in Persia is miserably low."<sup>604</sup>

Mediations by US Government to resolve the issue failed. No agreement was reached during Mosaddeq's visit to the White House or in the protracted negotiation between the British and the Persian Governments through President Truman's intermediary. Both parties were entrenched in their positions. Mosaddeq was resolved in his quest to nationalize the oil industry in his country, while the loss of the oil resource of Iran, as described by the US Secretary of State Dean Achaean, would "destroy the last vestige of confidence in British power and the pound. If it should be believed aboard that Britain would acquiesce in the despoliation of Iran, she would have no properties left within few months."<sup>605</sup>

The stalled negotiation compelled the Persians to invoke the new Nationalization law into action. They formed a "Provisional Board of Directors" in the summer of 1951 to negotiate a formal transfer of AIOC activities and facilities in Iran to the government-owned National Iranian Oil Company (NIOC). Mosaddeq offered the British technical experts in Abadan their jobs with the same pay and condition. Faced with the company's management's refusal to cooperate and the unanimous rejection by the employees to continue in their posts, the Persian Government ordered the British in Abadan to leave,

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<sup>604</sup> Christopher De Bellaigue, *Patriot of Persia*, Muhammad Mossadegh and a Tragic Anglo-American Coup, An Imprint of Harper Collins Publisher, quoting *The New Statement Newspaper* p. 158

<sup>605</sup> US Secretary of State, Dean Acheson cable, Christopher De Bellaigue, *Patriot of Persia*, Muhammad Mossadegh and a Tragic Anglo-American Coup, An Imprint of Harper Collins Publisher, quoting *The New Statement Newspaper* p. 184

followed immediately by the Iranian troops' occupation of the oil zone.<sup>606</sup>

The company facilities, including Abadan Refinery, ceased to operate once the Persians rose their flag over AIOC's headquarter and evacuated its British employees. Many were transferred to Kuwait just in time to be employed in the expansion of the oil facilities of Kuwait. Britain froze Iran's sterling account in the Bank of England and refrained from transferring the overdue royalty payments to Iran. The Labor Government was contemplating the use of the force; they dispatched the British cruiser "Mauritius" close to Abadan and stationed tanks on Kuwait beaches.<sup>607</sup> Despite their preparation, the British Government abandoned its war strategy under pressure from the US State Department.

The Persians managed to resume production, but it could only fill their large storage tanks and sustain the fuel required for local consumption. The fraternity of the oil companies torpedoed Mosaddeq's entry to the international markets. The Majors collectively embargoed the Persian oil, while the independents, though tempted by the lower prices, were threatened by litigation if they dealt with Iran. Even at half price, not a single buyer could be found. The Majors conveniently substituted the lost production of Iran from the new oil fields of Kuwait, Saudi Arabia, and Iraq. According to Shah's Press interview years later, the companies intended to teach a lesson so harsh that no other country would dare to pry into their affairs.

The mix of government and enterprise elevated the conflict from commercial disputes and lawsuits to a national crisis. AIOC, despite their efforts to conceal their political connection with HMG, was for all practical

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<sup>606</sup> Musaddiq Memories, Translated by S H Amine and H Katouzian, p.41

<sup>607</sup> Kuwait administration report for 1951, (FO371/98323)

purposes a governmental company with considerable holding and influence. The British Government became directly involved in the International Courts and other arenas on behalf of the company, even though the Persian oil concession, as argued by Mosaddeq, was between his government and an oil company.

The domestic political situation in summer 1952 had become challenging for Mosaddeq's authority and more than once a threat to his life. The unstable political climate and the economic hardship reminiscences of wartime and during the Russian-British occupation was back. Confrontations between different political functions ranging from religious groups to the Communist Tudoh persisted and created discord amongst the population. The spread of violence and partial strike throughout Iran and the revolt in Bakhtiyyar, not far from the oil wells, forced the Government to place Tehran under martial law. In October 1952, Mosaddeq served Iran relations with Great Britain, accusing them of intrigue to topple his government. Amidst the prevailing chaos, the communist party Tudoh was active and on the rise.

American neutrality did not last long; the British finally allured the Americans to their side. The newly elected President Eisenhower, wary of the spread of communism, was willing to be involved in the Middle East after years of isolation. Although there were no signs that Iran was on the verge of turning to communism, the British MI6 chief "dwelled on the dangers of communism" to his American counterparts while downplaying the issue of the nationalization of oil.<sup>608</sup>

The British Government's drive to persuade the Americans of their viewpoint turned the table against the

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<sup>608</sup> Christopher De Bellaigue, *Patriot of Persia, Muhammad Mossadegh and a Tragic Anglo-American Coup*, An Imprint of Harper Collins Publisher p. 221

Persians. The use of propaganda circulated by the British and the American media, claiming an increase of the communist Tudeh party influence, finally convinced the Americans to join the British to overthrow Mosaddeq. The economic situation in Iran and the prevailing hardship resulting from the crippling embargo, the chaotic political atmosphere of riots, and the deceiving news turned the population of the major cities away from Mosaddeq even before his overthrow.<sup>609</sup>

Once the British diplomats and their secret agents moved out of Iran to Cyprus rather than back to their bases in the UK, the field operation was handed over to the Central Intelligence Agency (CIA). The American and British allocated large sums of money to cover bribes and expenses needed for the covert operation conducted by their secret services, but the first coup to arrest Mosaddeq and his government on the eve of August 15<sup>th</sup>, 1953 by Shah's men failed. The Prime Minister was tipped by an informer, later revealed to be a high-ranking civil servant,<sup>610</sup> and was ready to defend his government with an army loyal to him. The attack to detain the Prime Minister turned instead into a surprise arrest of the Commander of the unit assigned with the mission. The failed attempt obliged the Shah to flee to Bagdad and ultimately to Rome.

Despite the failed attempt and Washington's instruction to abandon Operation Ajax, CIA agent Kermit Roosevelt, entrusted with the assignment to organize Mosaddeq's removal, was not ready to give up. His new plan called for maximum chaos, even if it led to civilian deaths or civil

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<sup>609</sup>Fariborz Mokhtari, Iran's 1953 Coup Revisited: Internal Dynamics Versus External Intrigue, Middle East Journal, V62 No3 (Summer 2008) p. 477

<sup>610</sup> Musaddiq Memories, Translated by S H Amine and H Katouzian, p.69

war.<sup>611</sup> Recruited thugs roamed the street demanding Shah's return, disrupting regular daily activities, ransacking and ravaging stores and government offices. By the evening of August 19<sup>th</sup>, Mosaddeq's government finally fell to the Army.

The collapse of Mosaddeq's Government on August 19<sup>th</sup>, 1953, his arrest, and the Shah's return was soon manifested in the change of the mass slogans on Tehran's streets in just a few days from "death or Mosaddeq" to "death to Mosaddeq." The mass demonstration on warm August day in 1953 was markedly different from that a week earlier, as the Shah motorcade moved slowly on the tree-lined Bulverde of Tehran to his palace.

Mosaddeq was admired for his patient, his negotiation approach, and the use of the international courts to legitimize his case. He won broad sympathy and, in many instances, caused enough embarrassment to the British Government. The Persians still remember him as a determined nationalist who insisted on nationalizing the oil in his country and pride for not abdicating his home when he fell. A journalist in Herald Tribune newspaper wrote that there were few if any leaders of small nations with Mosaddeq courage, who, watching their country suffer under a massive financial and economic blockade imposed by Britain, would tell Truman and Churchill, "no."

The overthrow of Mosaddeq and the return of Shah finally settled the political impasse and resolved the dilemma of the nationalization of the oil company. AIOC was eager to restore its former position in the Iranian oil industry<sup>612</sup> once the new Tehran government was in place.

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<sup>611</sup> Christopher De Bellaigue, *Patriot of Persia*, Muhammad Mossadegh and a Tragic Anglo-American Coup, An Imprint of Harper Collins Publisher p. 238

<sup>612</sup> J. H. Bamberg, *The History of the British Petroleum Company*, V2 *The Anglo-Iranian Years 1928-1954*, Cambridge University Press p.491



However, the Iranian Government made it clear through the American mediators that it cannot accept the resurrection of AIOC control of its oil industry for fear of reviving unrest by pro-nationalization forces.<sup>613</sup> An international oil consortium was formed in April 1954, made up of AIOC holding 40% of the shares, another 40% divided equally between five US Major, 14% for Royal Shell, and the remaining 6% for the French CFP.<sup>614</sup> An agreement was signed in October 1954 between the new consortium and the Government of Iran based on the now-familiar 50/50 profit sharing. It was an agreement that was concluded after a long and hard-fought diplomatic and legal battle.

### **The Suez Conflict: The Height of Nationalism**

Nasser's ascent to power in July 1952 overlapped the period that Mosaddeq reigned; like Mosaddeq, he reflected his countrymen's widespread resentment against the colonial era and the British's continued military presence in Egypt, mainly around the Suez Canal. His passionate speeches against the Western powers and Britain's vilification in Cairo's radio station, Sout Al Arab (Voice of Arabs), resonated with the masses across the Arab countries. His influence and power went beyond his people; it soon touched most of the Arab population and led to governments' change in Syria and Iraq.

An agreement to end more than seventy years of military occupation was eventually signed in October 1954 between the British and the Egyptian Governments that

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<sup>613</sup> J. H. Bamberg, *The History of the British Petroleum Company, V2 The Anglo-Iranian Years 1928-1954*, Cambridge University Press p.505

<sup>614</sup> J. H. Bamberg, *The History of the British Petroleum Company, V2 The Anglo-Iranian Years 1928-1954*, Cambridge University Press p.505

replaced the Anglo-Egyptian Treaty of August 1936. The British garrison's gradual evacuation of 80,000 men stationed alongside the Suez Canal was finally complete in June 1956, replaced by the Egyptian military forces. However, the Canal continued to be owned and operated by the joint British-French enterprise under a hundred-year concession that would have ended in 1968.

The withdrawal of the American and the World Bank from financing the Aswan High Dam on the Nile was believed to have provoked Nasser's decision to nationalize the Suez Canal, a mere 12 years earlier than the end of the concession. No sooner than the last British soldier left Suez, President Jamal Abdul Nasser announced the nationalization of the Suez Canal Company. In a fervent display, he gave his pre-arranged signal<sup>615</sup> during a fiery speech in Alexandria on July 26<sup>th</sup>, 1956, for his forces to seize the Canal key installations and declared the end of the British and French presence. He raised the anti-British sentiment to a new height and entrenched Arab Nationalists (Al-Arroba) throughout the Arab world.

Whether Nasser's nationalization move was to decolonize Egypt or provoked by the British and the Americans reneging on their promise to finance the Aswan High Dam on the Nile, Egypt's turn to the Russians was inevitable. Russia had already afoot in the door; in September 1955, Nasser had agreed with the Czechoslovakian government for the purchase of modern arms, thus, breaking the western arm monopoly to the region. The British Prime Minister Sir Antony Eden viewed the nationalization not as Arab nationalism but as a threat to western economic interests.<sup>616</sup> Nasser's action

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<sup>615</sup> The agreed code for his forces to occupy Suez Canal Company's offices was Ferdinand de Lesseps, the French Engineer who build the channel in 1869

<sup>616</sup> D. Thorpe, *Eden The Life and Times of Anthony Eden First Earl of Avon, 1897-1977*, Pimlico, p. 476

had affected the British and the French prestige and threatened their vast interest in the Middle East. The two European powers viewed Nasser's move as a risk to world free trade and global shipping, but the Americans were less concerned and saw it as merely a European problem.

Some British politicians were contemplating accepting the compulsory purchase that Nasser was willing to pay at market price for the 44 percent of the British holding. However, the option of military action to wrestle the control of the Canal from the Egyptians was gaining ground. The British lawmakers justified the use of force as a protection of their vital national interest. Eden attempted to enlist both the French and the Americans in any possible military incursion; France's involvement was forthcoming, but American support was increasingly in doubt and, at times, hostile. The American State Department expressed strong reservations to the Foreign Ministers of Britain and France against the use of force, accusing them of adopting an uncompromising stand in resolving the conflict. Unlike the earlier joint action to quell the nationalization of the Iranian oil, the British and the Americans parted ways in case of the nationalization of the Suez.

President Eisenhower's explicit rejection of force and the mounting domestic pressure for a peaceful resolution to overcome the impasse did not alter Eden's and, perhaps more emphatically, the French government's mind for military intervention. The recommendations of the first London Conference in August 1956 for an international administration of the Canal, a seat for Egypt on the board of the Company, and an increase of Egypt's revenues did not go anywhere. The Americans persisted that military action would run against the United Nations Charter and

threatened world peace,<sup>617</sup> but the use of force was gaining ground within the British-French entente.

The British stand somewhat softened; gradually, they became more aligned with the Americans, but the French stand was unwavering in their determination to defeat Nasser. The British and the Egyptian Foreign Ministers work hard to reach a proposal to be submitted to the United Nations, while the French were resolute to hinder any compromise and to steer the British policy toward military action.<sup>618</sup> A new entente was formed to deal a decisive blow to Nasser's plans, justified on ensuring freedom of navigation until an international deal could be reached with Nasser.

A secret plot to reestablish control over the Canal and dispose of Nasser was prepared in London. Under the plan, Israel would invade the Canal in a preemptive measure; the British and French would simply intervene as peacemakers and secure the waterway.<sup>619</sup> Israeli forces invaded Egypt on an agreed pretext on the eve of October 29<sup>th</sup>, 1956; their paratroopers landed near the Canal. The British and the French immediately demanded disengagement and announced their intervention to enforce a ceasefire. The Anglo-French air power attacked Egyptian bases, forcing the Egyptians to evacuate their positions. Despite United Nation's resolution calling for a ceasefire two days later, on November 1<sup>st</sup>, and the Russian threat to crush the aggressors and wipe out the invasion, the British and the French forces continued their attack. Their troops landed in Port Said on the northern mouth of

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<sup>617</sup> US State Secretary Dulles "Report on the Suez Situation" New York Times, August 9<sup>th</sup>, 1956

<sup>618</sup> Bernard, Jea-Yves, Disregarding the Atlantic "Special Relation": The Eden Cabinet in the Lead-Up to the invasion of the Suez Canal Zone

<sup>619</sup> D. Thorpe, Eden The Life and Times of Anthony Eden First Earl of Avon, 1897-1977, Pimlico, p. 513

the Canal posed as a detachment force between the Egyptian and the Israeli armies' and quickly advanced more than twenty miles along the waterway.

The attack caused an international uproar and condemnation, including from both the US and the Soviets. The Indian Prime Minister Jawaharlal Nehru expressed his dismay, stating that he "cannot think of a grosser case of naked aggression than what England and France are attempting to do."<sup>620</sup> The British and French accepted the UN resolution for an unconditional ceasefire under heavy US diplomatic pressure and threat of imposing economic sanctions on the British and the French, including selling sterling and holding up the supply of emergency oil. Their troops were soon obliged to pull out from their position, replaced by United Nation's peacekeeping forces.

The dramatic failure of the invasion humiliated the British and the French; the British clout in the Middle East was devastated. In Egypt, British influence receded and was replaced, to the Americans' dismay, by the Russian. The international media depicted the Suez episode as the watershed that finally marked the end of the British Empire. Or, as the British Prime Minister, Harold Macmillan, put it, "the British action was the last gasp of a declining power." Though militarily successful, the British considered the failed invasion as an American betrayal of their joint strategy. The US policymakers were more concerned with the Cold War confrontation with the Soviets, while the two European allies were still motivated by protecting their imperial legacies.

Nasser's nationalization of the Suez Canal did not bring about the doomsday Eden, and the members of his Cabinet were instigating. It did not bring about the blockade of oil

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<sup>620</sup> S. C. Gangal, *India and the Commonwealth*, p. 36 Sheva Lal Agarwala & Company

or the predicated collapse of Britain and its way of life as feared by Sir Ivonne Kirkpatrick, the Under-Secretary at the Foreign office. Kirkpatrick had earlier warned that "Nasser will have deprived us of our oil, the sterling area would fall apart, unemployment and unrest in the United Kingdom would rise, and our standard of living reduced to that of Yugoslavs or Egyptians."<sup>621</sup> He further warned that "if Middle East oil is denied to us for a year or two, our gold reserves disappear, and the sterling disintegrates." Without reserve "we shall not be able to pay for the bare minimum necessary of our defense. And a country which cannot provide its defense is finished."<sup>622</sup> In retrospect, it was hard to understand the British fear of the blockade; there was every reason for the Egyptians to keep Canal open after the nationalization. Nasser's dire need for funds to support his projects, most conspicuously the Aswan Dam, was not in the mood to shot himself in the foot.

Although the two nationalization ventures led to the rise of nationalism in the Middle East, they had different outcomes. The failed nationalization of Iran's oil industry resulted in Shah's return from exile, debuted American oil companies, and soon followed by 25 years of US influence in Iran. The British AIOC lost its exclusivity while the new concession was redrafted in 1954 with new terms, but more critically partnering with the Americans and other European oil companies. On the other hand, the successful outcome of the nationalization of the Suez forced the British and the French to leave Egypt. The Egyptians

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<sup>621</sup> Lucas, *divided we Stand*, p. 213, cited in Simon Smith Book, Simon Smith, *Ending Empire in the Middle East: Britain, the United States and the Post-War Decolonization, 1945-1973*, p. 53, Routledge, London

<sup>622</sup> Ann Lane, *The Past as a matrix: Sir Ivonne Kirkpatrick*, cited in Simon Smith Book, Simon Smith, *Ending Empire in the Middle East: Britain, the United States and the Post-War Decolonization, 1945-1973*, Routledge, London p. 53

acquired and successfully operated the Canal, while the Russians established their first foothold in the Middle East since their departure from Iran at the conclusion of WW2.

Unlike the muted and the unsympathetic reaction in the Middle East for the Iranians in their ordeal, the nationalization of the Suez Canal in Egypt and the ensuing Triple Invasion led to a fierce and profound reaction in many Arab countries and fed into the already growing nationalism sentiment. The mass anger and frustration on losing the war in Palestine in 1948, the feeling of exploitation by the colonial powers only exacerbated the nationalistic sentiment that was further intensified after the Suez invasion. The populous backing of the Egyptian nationalization united the Arabs in their demand for independence and strengthened their national identity or "Al-Arroba," as it became passionately known by the Arab population in the next few years.

Nasser effectively manipulated Al-Arroba sentiment in his charismatic speeches. The intense radio broadcast from Cairo stirred hostility in Iraq, Jordan, Syria, and to a lesser extent in Kuwait and Bahrain against the British presence. It was a tug of war between Nasser's quest for influence over the masses of the Arabs East of Suez and North Africa and the British attempts to sustain their dominance. Understandably the strong anti-British predisposition driven by the nationalistic feelings put many Arab rulers in an awkward position. They were faced with a predicament, whether to retain people's support or continue their dependency on the British for their legitimacy and national defense. Although both British Government and the rulers downplayed their close relationship and deflected the criticism to a large extent, the anti-British drive<sup>623</sup> did provide the impetus for the

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<sup>623</sup>Onley, James. Britain and the Gulf Sheikdom 1820-1971: The Politics of Protection, p.18, Center for Int. and Regional Studies, Georgetown Univ., Qatar

eventual overthrow of the pro-British government in Iraq and placed the governments in the Gulf region and Jordan under immense pressure.

The two nationalizations had an opposite influence on the oil industry. The oil companies in the Gulf effectively compensated for the loss of Iranian production by raising production in Saudi Arabia, Iraq, and Kuwait during the nationalization of AIOC between 1951 and 1953. The closure of the Suez, on the other hand, complicated the oil movement from the Gulf region to Europe through the old route around Africa, causing a severe cut in oil production from Kuwait and other Gulf countries. The ruler of Kuwait distant himself from Iran's nationalization efforts; he expressed his rejection of Persian action rather strongly to the British representative. He thought that AIOC should refute the Persian demand for nationalization while his representative in the oil company was clear in his declaration that the Sheik "requests for an increase in royalties are entirely unconnected with the Persian crisis."<sup>624</sup>

### **The Bagdad Pact**

The calls to end all treaties between Great Britain and Iraq that were signed post World War One had started long before the 1958 revolution in Iraq. The revolt of Rasheed Ali Al Gaylani in 1941 to end the British influence at the break of World War Two and to establish stronger ties with the Germans was quickly defeated by the British Arm Forces. The British occupied Bagdad and Basra during the war depriving the Germans of access to the region. The

<sup>624</sup> Telegram from Foreign Office to Political Resident, Bahrain, December 13<sup>th</sup>, 1948 (R/15/5/265)



Iraqi Government eventually concluded and signed a new treaty with Great Britain in Portsmouth in January 1948 after almost a year of secret negotiation to replace the 1930 agreement and end all British influence, including handing over the two remaining air bases to the Iraqis. Nonetheless, the British were allowed the use of the military bases in case of war, while Iraq accepted that its Army relied on British planning, supply, and training for further 25 years. Riots and unrest swept throughout Bagdad and other large cities once the treaty became publicly known. The new treaty was rejected by the public and was even unacceptable by King Feisal II. Fresh demonstrations erupted in sympathy with the 1952 revolution in Egypt, though it was suppressed, the seed of discontent was already planted in the army's young cadets' minds.

The temporary loss of British clout over Iran and the shrinking of their `influence in Egypt in the aftermath of the 1952 overthrow of King Farouq did not deter Britain from its attempt to preserve its imperial status and consolidate its power. They formed the Bagdad Pact in February 1955, joined by Iraq, Turkey, Iran, and Pakistan, to protect their oil interest in the Middle East and as a northern belt against possible Soviet insurgents. The British authorities were committed to expanding the Pact to include other Arab countries, most obviously Jordan and perhaps Lebanon, to alleviate Iraq's Prime Minister, Nuri Al Saed, anxiety and feeling of isolation as his country was the only Arab present. From the British perspective, the Pact could strengthen their regional position to presumably counter Nasser's influence in the eastern part of the Arab World.

The Pact aggravated the public and exacerbated the discontent of the army officers. The Iraqi Government, its King, and the Prime Minister were fiercely attacked by

Nasser's government for its association with Britain and Turkey, accusing Istanbul of their attempts to revive the historical Ottoman Empire's influence in the Arab countries. The Iraqi Government was placed in an awkward position since it was perceived by the masses as a British colonial vehicle. The Pact was weakened by the rapid and vigorous rise of the regional Arab nationalist fueled by anti-British sentiment and ceaseless demands to end colonization of the Arab countries and calls for Iraq's withdrawal from the Bagdad Pact.

Despite its adverse political implication, Bagdad Pact had a positive impact on Iraq's economic prosperity; it improved its relationship with its neighbors, Turkey and Iran, and encouraged the British and the Americans supplies of up-to-date military equipment to Bagdad. Iraq's economy was on the mend, with construction projects all over the country, and perhaps for the first time, it achieved a decent monetary surplus.

The long association with Britain that had extended since Iraq's inception in 1921 ended abruptly on July 14<sup>th</sup>, 1958, perhaps inspired by populist discontent with the foreign policy and the Bagdad Pact. A group of army officers headed by Abdul-Karim Qassim and Abdul Salam Arif overthrew the monarchy in a coup d'état, ending the old order and declared Iraq a Republic. They soon dissolved the Arab Union with Jordan and a year later withdrew from Bagdad Pact. The revolution in Iraq was supposedly encouraged by Nasser's rhetoric, but the Iraqis intended to preserve their independence. Although the British Government was angered and frustrated over losing a strong ally that included critical military bases in Iraq, they were reluctant to intervene. Qassim's promise of honoring the Anglo-Iraqi agreements, including oil concessions, was shrewd enough. In late August, the Foreign Office suggested that "the sooner we can get to

proper terms, the better” and recommended the extension of the British Government's recognition of the new regime.<sup>625</sup> The British Cabinet ultimately approved arm supply to Iraq, justified on continuing the traditional antagonism between Iraq and Egypt and their attempt to keep Iraq detached from Egypt's influence.

### **Gulf: The Last Bastion**

The erosion of the British influence in the region, and the rise of American assumption of power, compelled some British politicians, though still in the minority, to doubt the viability of the British colonies in the oil-rich Gulf countries. The rise of Arab nationalism, the high expenses of maintaining the colonies, and the liquidation of the British presence in India had reduced the British political clout in the region. The British Ambassador in Tehran, Sir Roger Stevens, questioned “the merits of preserving a political presence or a military foothold in the Gulf Territories as a means of maintaining British commercial interest, or to ensure the flow of oil.”<sup>626</sup> In his view, the traditional reason for the British presence in the Gulf ceased to exist; as he put it, “our position there became stations on the road leading nowhere.”<sup>627</sup>

The old British establishment in the Gulf contradicted the Ambassador's attitude. Despite the growing perception of British presence as anachronistic, the British authorities

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<sup>625</sup> Policy in Middle East, August 24<sup>th</sup>, 1958, Public Records Office (PRO), FO371/132545, p.7

<sup>626</sup> Letter from British Ambassador in Tehran, Sir Roger Stevens to Foreign Secretary, No 140, December 8<sup>th</sup>, 1956, (FO371/120571/EA1055/17)

<sup>627</sup> Simon C. Smith, *Britain's Revival and Fall in the Gulf Kuwait, Bahrain, Qatar and the Trucial States, 1950-71*, p.14

in the Gulf were convinced that the British role in the Gulf should not come to an end.<sup>628</sup> The Political Resident Sir Bernard Burrows rejected the notion that “anything which has existed for a hundred years, such as our relations with the Gulf States must necessarily be wrong.” He was clear that he did not see any justification to end the British presence in the Gulf or the alteration of the long-standing relationship between Britain and the Gulf countries.<sup>629</sup> He argued that ending the British presence and treaties in the Gulf was never the demand of the rulers or the majority of its subject. However, the realization of the overwhelming sympathy with the nationalistic concept of Al Arroba, it was essential for Britain to “draw very deeply on the accumulated fund of goodwill’s of the Gulf Rulers.”<sup>630</sup>

Great Britain’s Foreign Office and most of the British Ambassadors in the region were stressing the criticality of the British presence in the Gulf. Kuwait was supplying half of the British total oil needs while the Ruler of Kuwait had kept an enormous accumulated wealth in the sterling area and had promised to continue Kuwait’s investment in Britain. In a sense, any changes in the Gulf countries in their policy toward Britain would be, as predicted by the Political Resident George Middleton, the result of external events and outside pressure rather than internal attitudes. Despite the rise in the hostility to the British domination in the wake of the Suez conflict in 1956 and the formation of the United Arab Republic (UAR), the growing demands for

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<sup>628</sup>Letter from Political Resident to Lloyd, January 24<sup>th</sup>, 1957, Number 12, (FO371/126915/EA1051/2)

<sup>629</sup> Simon C. Smith, *Britain’s Revival and Fall in the Gulf Kuwait, Bahrain, Qatar and the Trucial States, 1950-71*, p.15

Confidential Letter from J.C.B. Richmond, Political Agent Kuwait to Foreign Office, January 4<sup>th</sup>, 1961 (FO371/156834)

<sup>630</sup> Smith, Simon, *Britain’s revival and fall in the Gulf: Kuwait, Bahrain, Qatar, and the Trucial State, 1950-71*, p.14 Routledge, London

the Gulf rulers to end their treaties with the British fell on deaf ears.

The likelihood of any Gulf countries joining Egypt and Syria in the new union or any of the Rulers adopting a new position more sympatric with the Union was not far from the Foreign Office strategist. In a paper, the Foreign Office supposed a scenario in which Kuwait's Ruler announced his break from Britain to join UAR. If that were to occur, the writer recommended forced occupation of the country rather than the loss of the most essential source of Middle East oil.<sup>631</sup> In spite of the rapid changes that were occurring in many Arab countries and the rising vocal demands to vacate the British from the Gulf territories, the rulers had recognized that British presence at that stage of turbulence 1950s was of the essence in preserving the stability of their region, and their rule.<sup>632</sup>

Kuwait's strategic importance for Britain increased in the post-Suez. British concern in the Middle East was no longer political or colonial; Kuwait's oil supply at a reasonable price had become a key objective of British policy in the Middle East after the Suez war.<sup>633</sup> The British Prime Minister pointed out to the US President Eisenhower in Bermuda the importance of protecting Kuwait; "even in a region where many areas are great producers of oil, Kuwait is by far the greatest of these and in itself can produce oil enough for all Western Europe for years to come."<sup>634</sup>

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<sup>631</sup> Policy in Middle East, August 24<sup>th</sup>, 1958, Public Records Office (PRO), FO371/132545, p.5

<sup>632</sup> Onley, James. Britain and the Gulf Sheikdom 1820-1971: The Politics of Protection, p.19, Center for International and Regional Studies, Georgetown University, School for Foreign Service in Qatar

<sup>633</sup> Relations between Britain and Kuwait, 1957-1963 by Richard Stables, University of Warwick May1996, p.67

<sup>634</sup> ELAK: Eisenhower Papers, International Meetings series, Bermuda Conference, March 21,1957. P.4. cited in a paper:

The decisive power shift in parts of the Middle East from the old imperialist Britain to the cold war adversaries: The United States, and the Soviet Union, did not eliminate Britain's influence in the Gulf. Hermann Eilts, US Ambassador to Saudi Arabia, noted that the "American policy in the Gulf, was to a considerable extent the result of difference to the British."<sup>635</sup> Calls for their continued presence in the Gulf by some of the Gulf Rulers and the US Government were loud enough once the Labor Government announced in January 1968 their withdrawal plan from East of Suez and to end the remaining treaties it had with the rulers of the Gulf by the end of 1971. The Labor Government justified their decision on the need for a drastic reduction of the expenditure to manage the deficit in the balance of payment and reverse the dire state of the British economy. In a sense, it was a cold-eyed review of cost and benefit, disregarded warnings of likely repercussions that included possible hostilities between the local powers and the risk to Europe's oil supply. The end of the British presence in the Gulf eased public criticism of the Labor Government within the UK for the deep cuts it made to the government spending and thwarted the increasing international criticism of the British 19<sup>th</sup>-century colonization policy so late in the 20<sup>th</sup> century.

The decision worried the Gulf rulers and disappointed the Americans since they feared it would allow the Soviets to reach the Gulf's waters while their hands were full in Vietnam. The instantaneous threat by Qassim's regime against Kuwait during the summer of 1961 was still fresh

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Relations between Britain and Kuwait, 1957-1963 by Richard Stables, University of Warwick May1996

<sup>635</sup> Conversion with Ambassador Eilts; The Dilemma in the Persian Gulf (Chicago University Oral History 1980, p.5. cited in a paper: Relations between Britain and Kuwait, 1957-1963 by Richard Stables, University of Warwick May1996

in the ruler's mind that similar danger might be around the corner. Despite the Gulf rulers' apprehension, the British's ending of the remaining treaties with Bahrain in August 1971, Qatar in the following month, and the Emirates in December was a non-event if it was not for the entry of the Iranian army to the islands of Abu Mousa, and Tanubs on November 30<sup>th</sup>, just a day before the British withdrew their forces from the Gulf.

## 12 Strive for Sovereignty

Unlike the independent movements that dominated the second half of the twentieth century, Kuwait's move toward sovereignty was placid, somewhat gradual, and intentionally uneventful. It was not the spur of the moment that Sheik Abdulla Al-Salam first proposed in a memorandum in early January 1961 the termination of the 1899 "Exclusive Agreement" with Great Britain and the desire for full sovereignty over his state. His aspiration for independence was perhaps formed during his visit to Bagdad in May 1958. Under pressure by the Iraqi Prime Minister, Nuri Al Saed, to join the newly formed Arab Union of Jordan and Iraq, he requested the British Government approval for his country to join the Arab League as a means to ease the pressure and a step toward eventual independence.

The events of Suez in 1956 seemed to have influenced the Sheik thinking. The Foreign Office noted soon after the end of the conflict in November 1956 that "an inevitable progress towards a reduction in our influence and perhaps the eventual loss of our special position in Kuwait has been accelerated."<sup>636</sup> The Sheik, nonetheless, assured the

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<sup>636</sup> PRO:FO 371/120557: Security Situation in Persian Gulf



Political Resident during his visit to Kuwait in March 1957 the importance that Kuwait attached to the British connection.<sup>637</sup>

The overthrow of the King of Iraq on July 14<sup>th</sup>, 1958, created a new emergency for the British Government and Kuwait. Kuwait's Government reacted quickly to the overthrow and ordered the security forces to a state of alert. Despite the persistent British offer for help, the Acting Sheik refused.<sup>638</sup> The British were contemplating sending troops superseding the Sheik's opposition, with the declared objective of keeping Kuwait's oil fields in the western hands. The British Government was prepared to place a battalion in readiness in Bahrain to intervene in case of an Iraqi attack or a similar coup that could lead to possible Kuwait's attachment to UAR.<sup>639</sup>

In London, the Ministry of Defense was prepared on July 22<sup>nd</sup>, 1958, to immediately move into Kuwait if invited, or after five days if the opposition took over the government with the sole intention of preserving access to the Middle East oil.<sup>640</sup> Two operations code-named "Operation Turtle" and "Operation Valiant" were planned to deploy forces from bases in Aden and Bahrain by air and sea. Once on the ground, the forces would control the oil fields, the refinery and oil export facilities, and the water supply.<sup>641</sup>

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States: Memorandum November 15, 1956

<sup>637</sup> SDA: State Department files, American Consulate to Department of State: March 26, 1957, cited in a paper: Relations between Britain and Kuwait, 1957-1963 by Richard Stables, University of Warwick May 1996

<sup>638</sup> PRO:FO 371/132757: Internal Political Situation in Kuwait: Persian Gulf Monthly Report for the period July 3-August 6, 1958

<sup>639</sup> PRO:FO 371/132779: UK Policy towards and influence in Kuwait: Minutes of Secretary of States talks with Mr. Dulles. Alternative course of action in Kuwait, July 22, 1958.

<sup>640</sup> PRO: PREM 11/2752: Middle East 1958-1959: Notes on Middle East policy for Prime Minister, July 30, 1958

<sup>641</sup> PRO:FO 371/132779: Kuwait: Legal Aspects of Intervention:

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Just a week after the overthrow of the King of Iraq, the British government assured the Sheik of their resolve to fulfill their obligation if attacked. With the Suez still fresh in the minds of the British politicians and the Middle East population, Britain's determination to interfere militarily was a clear indication that the supply of oil came above all other considerations in the region.<sup>642</sup>

The Sheik rejected the British proposal to build up a military presence in Kuwait, reiterating his reluctance to see foreign troops in his country.<sup>643</sup> According to the local British authorities, the two military operations readiness were eased in August 1958, once the political situation was relieved and the imminent danger had passed.

Sheik's requests for autonomy and some leeway in developing sovereign characters beyond the limits imposed by the 1899 Treaty had become more frequent. He informed the British Agent in Kuwait in July 1958 of his desire for membership of international organizations "as evidence both of his Independence and Kuwait solidarity with the Arab world."<sup>644</sup> He, nonetheless, stressed his desire to keep the agreement between Britain and Kuwait intact. To a certain degree, in the post-Suez atmosphere, Kuwait's Government sought the wisdom of maintaining a distance from the unpopular association with Britain, but without losing the vital security of the British influence. In the Sheik view, his vicinity to the Arab League would gain him positive public opinion at home and with the hostile

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Kuwaiti Report: Riches, July 24<sup>th</sup>, cited in a paper: Relations between Britain and Kuwait, 1957-1963 by Richard Stables, University of Warwick May1996

<sup>642</sup> Relations between Britain and Kuwait, 1957-1963 by Richard Stables, University of Warwick May1996, p. 126

<sup>643</sup> PRO: PREM 11/2752: Middle East 1958-1959: Kuwait to Foreign Office, July 30, 1958

<sup>644</sup> Kuwait: International Relations, Memorandum by The Secretary of State for Foreign Affairs, November 4<sup>th</sup>, 1958, The National Archives, British Government, C (58) 228

Arab population and deter the new Arab revolutionary countries from claiming Kuwait or pressure Kuwait to join their new unity.<sup>645</sup>

In the aftermath of the Iraqi revolution, the British realized that their dominion over Kuwait was bound to end. Paul Johnson, a senior British official, advised his Government a fortnight after the overthrow of the Kingdom in Iraq to encourage Kuwait's ruler to undertake democratic reforms, issue a constitution, and replace the exclusive agreement of 1899 with Britain with one of friendship.<sup>646</sup> The Sheik and his government were striving for new arrangement; Selwyn Lloyd, the British Secretary State for Foreign Affairs, noted that the Sheik had "progressively greater responsibility for the internal administration of his country, and it would not necessarily be to the disadvantage of the British that he should take a more direct and personal interest in its international relations as well."<sup>647</sup>

Many government institutes and infrastructures were already established in the few years before the declaration of independence. A bureaucracy consisting of the Higher Council, dominated by the ruling family, and functional departments were in place to handle all domestic administration. New laws were being introduced, most notably the criminal code and Labor and civil Laws founded on a mix of secular and Islamic Sharia principles. Despite Kuwait's rudimentary administration of justice that included, as late as 1958, flogging of prisoners, and the absence of proper criminal and civil codes, the British

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<sup>645</sup> Mr. A S Halford, Political Agent, Kuwait to Foreign Office, July 31<sup>st</sup>, 1958 (FO371/132786)

<sup>646</sup> Paul, J., "High Moon in Kuwait", *New Statesman*, July 26<sup>th</sup>, 1958, cited in Saeed Hashim, *The Influence of Iraq on the Nationalist Movements of Kuwait and Bahrain 1920-1961*

<sup>647</sup> Kuwait: International Relations, Memorandum by The Secretary of State for Foreign Affairs, November 4<sup>th</sup>, 1958, The National Archives, British Government, C (58) 228

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Cabinet, with considerable reluctance, accepted the Ruler's request to remove the anomaly of dual jurisdiction in his country.<sup>648</sup> The Cabinet agreed to relinquish Her Majesty's extra-territorial jurisdiction in favor of the local court, thus ending all signs of capitulation.

Selwyn Lloyd noted that the local government was increasingly responsible for its international dealing; he elaborated that although "the formal relationship was still based on the Exclusive Agreement of 1899", the Sheik was allowed "the accession international organizations, and to regard Kuwait as fully responsible for the conduct of her international relations."<sup>649</sup>

It joined several international organizations as a sovereign state, with the British Government's full support, hoping that such memberships in the international community would deter any possible aggressors from absorbing the oil-rich country.<sup>650</sup> The Economist noted that Kuwait "has been filling out so well as a state with a truly sovereign character."<sup>651</sup> Nonetheless, its major weakness as an independent state remained in its lack of experience to defend itself. It had not participated in any wars for forty years, and there was no viable plan to establish an armed force to deter any attacks and defend its sovereignty.

Secretary Lloyd conceded that the 1899 agreement had become obsolescence. He noted that the treaty no longer

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<sup>648</sup> Jurisdiction in Kuwait, Memorandum by The Secretary of State for Foreign Affairs, November 24<sup>th</sup>, 1959, The National Archives, British Government, C (59) 174

<sup>649</sup> Kuwait: The Exclusive Agreement of 1899, Memorandum by The Secretary of State for Foreign Affairs, May 10<sup>th</sup>, 1960, The National Archives, British Government, C (60) 81

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Jurisdiction in Kuwait, Code BA file 1647, 1959, FO 371/140247, The National Archives, British Government

<sup>651</sup> "Forward" Economist (London, England) 24 June 1961: 1350. The Economist Historical Archive. Web. 25 June 2019

reflected the spirit of the new Anglo-Kuwaiti relationship and was no longer compatible with the circumstances. He indicated his readiness to consider the revision of the old agreement, provided it was initiated by Sheik Abdulla Al Salam. At that point, even the die-hard British authorities who did not wish for any change in its relationship with Kuwait accepted the fact that the 1899 treaty was outdated and should be replaced.

The Sheik did eventually take the initiative in January 1961 as suggested by Secretary Lloyd; he expressed his views in a memorandum to the Political Resident that "the provisions of the 1899 agreement are obsolete and that he wished to study the possibility of replacing it with a new agreement more consonant with the evolving status of Kuwait on which to build for the future."<sup>652</sup> He added that "the circumstances have undergone a fundamental change since the signature of the 1899 Agreement, nothing of the letter remained valid except the strong ties of friendship which join the two countries and that now wishes to make an agreement with Her Majesty Government which while replacing the 1899 agreement would affirm this friendship and Britain readiness to assist Kuwait."<sup>653</sup> The Sheik proposed to annul the clauses that restricted his freedom to conduct his foreign affairs but insisted that the British political authorities provide him with written undertaking and affirmation of their readiness to assist Kuwait in times of trouble and protect his state from his powerful neighbors.<sup>654</sup> It was more of a conscious decision by the Sheik and his government to appeal for autonomy in his

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<sup>652</sup> Confidential Letter from J.C.B. Richmond, Political Agent Kuwait to Foreign Office, January 4<sup>th</sup>, 1961 (FO371/156834)

<sup>653</sup> Kuwait: Future Relations with the United Kingdom, Memedom by the Lord Privy Seal, April 6<sup>th</sup>, 1961, The National Archives, British Government, C. (61) 49

<sup>654</sup> Kuwait: International Relations, Memorandum by The Secretary of State for Foreign Affairs, November 4<sup>th</sup>, 1958, The National Archives, British Government, C (58) 228

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internal and international dealings without losing the security of Great Britain's backing. The Political Agent summarized his request as "the continuation of HMG's obligation to support Kuwait in her international dealings and preserve and consolidate some special relationship between the two countries"<sup>655</sup> that would ensure his protection.<sup>656</sup>

In a confidential Cabinet brief, the Foreign Office initially agreed to end the 1899 Treaty, particularly that the Ruler specifically asked for its termination.<sup>657</sup> They noted that the Ruler would "feel free to make his own decision in the knowledge that the United Kingdom will continue to extend assistance and protection to Kuwait." However, the British Cabinet's primary concern was to keep Kuwait's post-independence policies from being swayed by the evolving regional powers of the Middle East.<sup>658</sup>

The British Cabinet accepted Sheik's request on the grounds that the old treaty was incompatible with Kuwait's international responsibilities. Lord Privy Seal Edward Heath drew attention, in his memorandum, to the vital importance of Kuwait for Britain's Middle East oil interest and emphasized the advantage of the relationship with "independent and friendly Kuwait" was in the supply of oil at the best financial terms possible and in the balance of payments from the operations of the British companies in Kuwait, and Kuwait's readiness to accept and hold sterling.<sup>659</sup> The Secretary of State noted in a top-

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<sup>655</sup> Confidential Letter from J.C.B. Richmond, Political Agent Kuwait to Foreign Office, January 4<sup>th</sup>, 1961 (FO371/156834)

<sup>656</sup> Top Secret Cabinet Brief, no C61/49, April 13<sup>th</sup>, 1961 meeting (FO371/156834)

<sup>657</sup> Top Secret Cabinet Brief, no C61/49, April 13<sup>th</sup>, 1961 meeting (FO371/156834)

<sup>658</sup> Top Secret Cabinet Brief, no C61/49, April 13<sup>th</sup>, 1961 meeting (FO371/156834)

<sup>659</sup> Kuwait: Memorandum by the Lord Privy Seal, October 2<sup>nd</sup>,

secret memo issued in April 1961 that Great Britain agreed to recognize Kuwait “a fully-fledge independent State, and the only way of preserving our friendly relations with her is to treat her on a footing of equality.”<sup>660</sup> HMG agreed to extend assistance and protection of Kuwait against internal subversion and external aggression,<sup>661</sup> including military support only if and when requested by the Amir or his government.<sup>662</sup>

Despite UK’s Government interest in granting and maintaining Kuwait’s independence and preserving its sovereignty, the significance of oil and the impact on the British economy was expressed more bluntly by the Prime Minister, Harold Macmillan “what we are doing is to get the oil out of these territories for as long as the inhabitants remain fairly primitive, we ought not to be looking at Kuwait as a long-term commitment.”<sup>663</sup>

The British Government was contemplating a suitable form of an agreement, whether a new treaty was needed or a low-keyed “exchange of letters” between the two governments would suffice. They feared that any formal treaty that had British military obligation, though limited to times of trouble, would be characterized as a new colonial arrangement and might be subject to populace reaction mainly in the Arab countries rather than in Kuwait itself.<sup>664</sup> Heath warned that any agreement that alluded to the British obligation to maintain Kuwait’s

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1961, The National Archives, British Government, C. (61) 140

<sup>660</sup> Top Secret Cabinet Brief for April 13<sup>th</sup>, 1961 c. (61) 49

<sup>661</sup> “Forward” *Economist* (London, England) 24 June 1961: 1350. The *Economist* Historical Archive. Web. 25 June 2019

<sup>662</sup> Top Secret Cabinet Brief for April 13<sup>th</sup>, 1961 c. (61) 49

<sup>663</sup> Tom Bower, *The perfect English Spy: Sir Dick White and the secret war, 1935-90* p. 238

<sup>664</sup> Conclusions of a meeting of the Cabinet held at Admiralty House S.W.1 on Thursday, April 13<sup>th</sup>, 1961, with the Present of The Right Hon. Harold Macmillan, M.P., Prime Minister, The National Archives, British Government C.C. (61)

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independence “would be liable to invite attack both on HMG for imposing it and for Kuwait’s Ruler for accepting. It might have increased Arab nationalist pressures upon and within Kuwait to renounce British protection and at least make Kuwait less helpful to us in their oil and financial policy.”<sup>665</sup> Moreover, formal treaties “would require ratification by the Parliament in London before it becomes binding.”<sup>666</sup> A treaty proposal was expected to be the subject of scrutiny by the Parliament and criticism by the British press, whereas exchange of letters was entirely within the competence of HMG and would only require to be laid before the Parliament for information. They decided that an amicable low profile exchange of notes that assured the Sheik and his Supreme Council was good enough and would mitigate public criticism in the Arab countries.

The document titled “Exchange of Notes Regarding Relations between the United Kingdom and The State of Kuwait” was signed on June 19<sup>th</sup>, 1961, between Sheik Abdulla Al Salam and the British Political Resident Sir William Luce granting Kuwait its independence<sup>667</sup> (Appendix 9). The British Government revoked the “Exclusive Agreement” of 1899, acknowledged Kuwait’s sovereignty and independence, and declared Her Majesty Government’s readiness to assist Kuwait in maintaining its independence when requested and continuing the relations between them by the spirit of close friendship.

The wording of the agreement was not a termination of Kuwait’s affiliation with Great Britain; it was rather a

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<sup>665</sup> Kuwait: Future Relations with the United Kingdom, Memorandum by the Lord Privy Seal, April 6<sup>th</sup>, 1961, The National Archives, British Government, C. (61) 49

<sup>666</sup> Minutes of meeting on April 19<sup>th</sup>, 1961 in Qasr Al-Sif, Kuwait between the Ruler of Kuwait, and the British Political Resident and other (FO371/156834)

<sup>667</sup> Exchange of Letters, 19<sup>th</sup> June, 1961 FO 93/137/15



transition of their 60-year relationship with a less outdated understanding. Dr. Al Khateeb, representing Pan-Arabism in Kuwait, noted that the 19th June agreement, which replaced the former, was an indication that Kuwait's independence was not entire.<sup>668</sup> The new agreement satisfied the British's strategic objective of oil supply at a reasonable price, ensured Kuwait's autonomy and security, and alleviated the nationalist pressure both at home and in the other Arab countries.

Kuwait's insistence on the protection clause was, to a large extent, in anticipation of possible Iraq design. Evidentially Kuwait was not alone; according to Tom Bower in his book the perfect English spy, the British Secret Service had "predicated that Qassim was minded to invade Kuwait."<sup>669</sup> In anticipation, the War Office in London drew a contingency plan in the summer of 1958, soon after the overthrow of the Kingdom in Iraq, to counter a likely Iraqi invasion of Kuwait. The British Cabinet approved operation Vantage in November 1960, logistically dependent on exploiting British forces in Aden, Kenya, Bahrain, and Sharjah,<sup>670</sup> eight months before it was actually mobilized.

## **The Dispute Between Kuwait and Iraq**

### **The First Sign: Qassim Speech in April 1961**

The violent Iraqi Army coup D'état on July 14th, 1958, ended the monarchy and killed King Feisal II, his family, and his old Prime Minister, Nuri Al Saed. Relations

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<sup>668</sup> The Times (London), the 23rd June, 1961, cited in Saeed Hashim, *The Influence of Iraq on the Nationalist Movements of Kuwait and Bahrain 1920-1961*

<sup>669</sup> Tom Bower, *The perfect English Spy: Sir Dick White and the secret war, 1935-90* p. 238

<sup>670</sup> Helene von Bismark, *The Kuwait crisis of 1961 and its consequence for Great Britain's Persian Gulf Policy* p. 80

between Kuwait and the new revolutionary government, headed by the new Prime Minister Army General Abdul-Karim Qassim, took off on the right foot. Baghdad proposed a Consular exchange in December 1958 and even supported Kuwait's admission to some international bodies. Contrary to Nuri Al Saed's final days, there were no signs of hostility or claim of sovereignty over Kuwait in the early years after the 1958 revolution. However, as the set date for the signing of the exchanged letters between Great Britain and Kuwait was approaching, the Sheik became anxious about Iraq's Government reaction. He was assured by the British Ambassador in Bagdad "that it was by no means certain that Qassim would react adversely since he had recently been addressing the Sheik in a very friendly manner."<sup>671</sup> If anything, Qassim's government actions implied recognition of Kuwait as a separate State and were ready to back Kuwait for membership in international agencies.<sup>672</sup> The Iraqi Prime Minister had even invited Kuwait's representative to Bagdad in September 1960 as a State in its own right during the formation of the Organization of Petroleum Exporting Countries (OPEC).

The British Ambassador to Bagdad, Humphrey Trevelyan, noted that even if Qassim was contemplating an invasion of Kuwait, his preoccupation with the Kurdish rebellion in the north and internal challenge to his rule would constrain his ability to attack Kuwait. The problems facing Qassim in the Kurdish Province and his ongoing occupation with the oil companies encouraged the British to proceed with the arrangement with Kuwait's Government to replace the 1899 treaty with a new agreement.

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<sup>671</sup> Humphrey Trevelyan, *The Middle East in Revolution* p. 185

<sup>672</sup> Humphrey Trevelyan, *The Middle East in Revolution* p. 183

Sheik's aspiration of a peaceful declaration of independence was quickly imploded. Despite the British assurance, the first sign of possible hostility emerged just two months before Kuwait's declaration of independence. In his speech in April 1961, General Abdul-Karim Qassim attacked the alleged efforts by the British to bring Kuwait into Commonwealth.<sup>673</sup> He referred to the relationship between Kuwait and Iraq before and after the First World War, repudiating the 1899 Treaty and rejected the existence of borders between the two countries, describing it as an imperialist conspiracy.

No sooner than Kuwait declared its independence on June 19<sup>th</sup>, 1961, the new agreement, particularly the British Government's pledge to protect Kuwait, was put to the test. Contrary to all the congratulatory messages sent by Arab governments, including one from Nasser, the message from the Revolutionary Republic of Iraq on June 21<sup>st</sup> was threatening and with a language that was not devoid of deliberate insults. General Qassim's angry reaction was read over Bagdad radio; he abused the British imperialism and more explicitly describing the 1899 agreement as "fraudulently concluded."<sup>674</sup> Qassim announced that he "acknowledgment with pleasure of the abrogation of the illegal, forged and internationally unrecognized agreement which they called the 1899 agreement."

Qassim's proclamation of Kuwait as part of Iraq became more explicit a week later in his June 25<sup>th</sup> press conference. He described the new agreement as illegal and invalid. Qassim insisted that it was the Iraqi Government that has the right to sign the agreements on behalf of Kuwait since "Iraq regards Kuwait as an integral

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<sup>673</sup> Kuwait Al Youm, The Official Government Gazette of Kuwait, May 7<sup>th</sup>, 1961

<sup>674</sup> Confidential telegram from Political Agent Kuwait to Foreign Office, June 21<sup>st</sup> 1961, Records of Kuwait 1961-1965, p. 63

part of its territories, and does not recognize the special relationship agreement between Britain and Kuwait signed on June 19<sup>th</sup>, 1961.” He declared the obliteration of the artificial frontiers created by the imperialism,<sup>675</sup> and in a manner insulting to the ruler, he issued a Republic Decree in which he appointed the Sheik as Qaim-Maqam (Perfect, or District Officer) of the District of Kuwait in the Liwa of Basra, reporting to the Governor of Basra laced with a threat to use force in case he refused.<sup>676</sup>

Kuwait Government reacted calmly; the Supreme Council issued a communiqué declaring that Kuwait “is an Arab, independent with complete sovereignty internationally recognized and that the Government of Kuwait, backed by all the people of Kuwait, is determined to defend its independent.”<sup>677</sup> The Foreign Office assured the Sheik of their firm commitment, advising the Sheik to take the new developments calmly and avoid statements interpreted as a provocation. The British Government, in a message to the Sheik, “re-affirm their determination to carry out all the obligations entered into in the Exchange of Letters signed on June 19<sup>th</sup>, 1961,” but advised the Sheik from its publication.

Saudi Arabia’s King Saud quickly declared his support for Kuwait, including armed forces if needed. Meanwhile, the United Arab Republic under Jamal Abdul Nasser led other Arab countries in their condemnation of Iraq’s claim. Locally the situation had dramatically changed from the old days of discontent at the end of the 1930s. Kuwait’s citizens’ natural loyalty had united the population of the town and had virtually eliminated any opposition to the Government or any inclination toward Bagdad.

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<sup>675</sup>Telegram from Bagdad to Foreign Office, July 7<sup>th</sup>, 1961,

<sup>676</sup> Simon Smith, Kuwait 1950-1965 Britain, the Al Sabah and Oil, p.117

<sup>677</sup> Kuwait Oil Company Circular, June 27<sup>th</sup>, 1961, BP ARC 106833 dt 26/6/61

The Iraqi troop movement to Kuwait's border in the days following Qassim's press conference and the likely attack was a source of deliberation within the British circles. The British Embassy in Bagdad perceived Qassim's reinforcement of his troops near Basra and 40 miles from the border as an indication of his intention to move his forces to the Kuwait-Iraq border,<sup>678</sup> but the intelligence establishment in London was less concerned since they could not establish that the troops were meant to invade Kuwait. Iraq's Government insisted that the tanks' movement was planned for a military parade in Basra to commemorate Iraq's Revolution Day on July 14<sup>th</sup>. However, days later, on June 29<sup>th</sup>, the British Embassy in Bagdad confirmed that tanks were moving toward the border, set to attack Kuwait on July 1<sup>st</sup>.

In a series of meeting on 29<sup>th</sup> and 30<sup>th</sup> June, the Cabinet Defense Committee of the British Government, chaired by Macmillan, concluded that British military intervention was needed to stop Kuwait's annexation and that troops should be dispatched to Kuwait.<sup>679</sup> The British were wary of the US response; American support was vital to their military movement. The Foreign Secretary, Lord Home, informed the US Secretary of State in President Kennedy's Government of the Iraqi threat to Kuwait and requested American support for the military operation.<sup>680</sup> The matter was discussed in National Security Council; President Kennedy stressed Kuwait's great economic importance to the Western world and agreed to give Great Britain full political and logistical support.<sup>681</sup>

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<sup>678</sup> British Government Document, June 29<sup>th</sup>, 1961, C.C. 35(61)

<sup>679</sup> Helene von Bismark, *The Kuwait crisis of 1961 and its consequence for Great Britain's Persian Gulf Policy* p. 80

<sup>680</sup> Helene von Bismark, *The Kuwait crisis of 1961 and its consequence for Great Britain's Persian Gulf Policy* p. 81

<sup>681</sup> Ashton, *Britain and the Kuwait crisis 1961*, p. 170 cited in Helene von Bismark, *The Kuwait crisis of 1961 and its consequence for Great Britain's Persian Gulf Policy* p.81

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The Political Agent in Kuwait, Sir John Richmond, informed the Sheik as soon as the news of the Iraqi troop movement to Kuwait's border was revealed. He further told the Sheik that despite the British commitment to defend Kuwait, the British Government, according to the Exchange of Letters, cannot act without a formal request.<sup>682</sup> It was a dilemma for the British Prime Minister, as he expressed his frustration "go in quickly without formal authority, it is aggression, or wait, and it will be too late."<sup>683</sup> It was also a dilemma for the Sheik and his government; as much as he was eager for the British commitment to protect his country, the perceived anti-British atmosphere post-Suez did not make it any easier to request help from the British.

It was not till the next day, on June 30<sup>th</sup>, that the Ministerial Council in Kuwait met and requested the actuation of Article four of the Exchange of Letters signed just a few days earlier:

"In view of the military movements which have been undertaken by the Iraqi army on the borders of Kuwait and which are such as to threaten the security of Kuwait, I have decided to submit a request for military assistance to Her Majesty's Government in accordance with the Note which I exchanged with Sir William Luce on June 19, 1961. I beg you to inform your Government of this immediately, and I have full confidence Her Majesty's Government will adopt all measures and will muster their whole potential to ward off the aggressors.

Abdulla Al-Salam Al Sabah Ruler of Kuwait."<sup>684</sup>

His request was repeatedly announced over Radio Kuwait, perhaps in the hope of deterring any local

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<sup>682</sup> British Government Document, June 29<sup>th</sup>, 1961, C.C. 35(61)

<sup>683</sup> James Barr, *Lords of the Deserts, Britain's struggle with America to dominate the Middle East* p. 290

<sup>684</sup> PRO: Prem 1113427: Kuwait to Foreign Office, June 30, 1961, 9.26a.m.

agitation and ensure the backing of the domestic public opinion. Though the anticipated anti-British sentiment never emerged, Kuwait's Government was still anxious about the possibility of a hostile response. Kuwait's Government announcement assured the public of the withdrawal of the British forces as soon as the present crisis was over.

Even within the British Cabinet, there were contradictory voices; Prime Minister Harold Macmillan was unwilling to take any chances with so much of British financial well-being and sterling dependency on the situation of Kuwait. He recognized that the best way to safeguard Britain's economic interest was to preserve Kuwait's independence. There were, however, voices that objected to the military action. The Cabinet Secretary wrote to the Prime Minister, "we are fighting a losing battle propping up these reactionary regimes."<sup>685</sup>

The decisive reaction of Saudi Arabia and Great Britain to dispatch deterring forces relived the tension that engulfed Kuwait. Saudi paratroopers and ground forces arrived on July 1<sup>st</sup>, while the British launched the largest mobilization in the Middle East since Suez. The operation codenamed Operation Vantage, planned two years earlier, was designed to deter Iraq from attacking Kuwait. The British realized the necessity for a preemptive intervention in Kuwait,<sup>686</sup> fearful of their inability to reverse Iraq's annexation of Kuwait. However, the overarching reason behind British Government intervention was the fact that Britain was not ready to abandon its influence in the Gulf.

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<sup>685</sup> Tom Bower, *The perfect English Spy: Sir Dick White and the secret war, 1935-90* p. 238

<sup>686</sup> Ashton, *A Microcosm of Decline*, p. 1073, cited in an article by Helene von Bismark, *The Kuwait crisis of 1961 and its consequence for Great Britain's Persian Gulf Policy* p.76

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The 1961 crisis confirmed the indispensability of the British presence in the Gulf to secure regional peace.<sup>687</sup>

Five hundred Marine Commandos were flown by helicopters from HMS Bulwark as soon Kuwait Government requested help.<sup>688</sup> 42 Royal Marine Commandos<sup>689</sup> and four carriers arrived in Kuwait bay. Ten Hunter Aircraft were flown from British Air Base in Cyprus over Turkey's airspace, once Turkish authorities reluctantly agreed, and landed in an unfinished aerodrome. British forces landed in Kuwait at a time of blustering sandstorms that reduced visibility to less than 300 meters and the grueling heat of July with temperatures above 50 C. Although there were British forces that had landed in Kuwait in the interwar years to fend off Bedouin tribes, the Sheik bitterly complained of the irony of his situation to an advisor; he noted that despite the 62 years agreement with Great Britain, the British forces had only landed in Kuwait once its independence was achieved; the British came when it was the time of parting.

Once the first shock subsided, the border tension eased. Iraq categorical denied troop's movement toward the border and accused the British of having invented the story of the campaign, while the British Ambassador in Bagdad insisted that a special Task Force and tanks were on the move to the border with Kuwait.<sup>690</sup>

The British Prime Minister Mr. Macmillan announced on July 1<sup>st</sup> the events and the presence of the British Forces in Kuwait as follows:

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<sup>687</sup> Helene von Bismark, The Kuwait crisis of 1961 and its consequence for Great Britain's Persian Gulf Policy p.78

<sup>688</sup> James Barr, Lords of the Deserts, Britain's struggle with America to dominate the Middle East p. 293

<sup>689</sup> Cabinet minutes of meeting, July 3<sup>rd</sup>, 1961, The National Archives, British Government, C.C. 38(61)

<sup>690</sup> Humphrey Trevelyan, The Middle East in Revolution p. 189



"In accordance with Her Majesty's Government's obligations to the Ruler of Kuwait, and at his urgent and formal request, a British force was today moved into the State of Kuwait and placed at the Ruler's disposal. It is to afford him such assistance as he may consider necessary for the preservation of the independence of Kuwait in the face of recent developments in Iraq. The Secretary-General of the United Nations is being informed. Her Majesty's Government earnestly hopes that the necessity to make use of this force will not arise. It is intended that it should be withdrawn as soon as the Ruler considers that the threat to the independence of Kuwait is over."<sup>691</sup>

With the United Kingdom's backing, Kuwait presented its case to the Security Council, protesting the new "situation arising from Iraq's threats to the territorial independent of Kuwait." The Iraqi representative to the United Nations counteracted the British case; he filed a complaint against Britain's arm threat to his country. The British clarified that their forces were only meant to preserve Kuwait's independence and were ready to withdraw their troops as soon as requested by the Ruler. The draft resolution proposed by Great Britain requesting "all States to respect Kuwait's independence" was vetoed by the Russians. Moscow's representative vigorously argued "that Kuwait had no claim to be considered a State."<sup>692</sup> Despite the General Assembly's rejection, the British were confident that Iraq would be reluctant to mount an attack while the Security Council debate was in session.<sup>693</sup>

The British force in Kuwait became a predicament for Nasser and the Nationalists. Kuwait's independence from

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<sup>691</sup> Saeed Hashim, *The Influence of Iraq on the Nationalist Movements of Kuwait and Bahrain 1920-1961*, p. 458

<sup>692</sup> Humphrey Trevelyan, *The Middle East in Revolution* p. 198

<sup>693</sup> Cabinet minutes of meeting, July 3<sup>rd</sup>, 1961, *The National Archives*, British Government, C.C. 38(61)

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Britain concurred with Nasser's ideology of decolonization of the Arab countries, but the presence of British troops in Kuwait was, as far as he was concerned, despicable. The United Arab Republic (UAR) demanded the withdrawal of the British forces as soon as it landed. Kuwait Government, sensitive to the Arab nationalist sentiment, asserted that the presence of the British force was only a result of Qassim's claims. In stormy sessions of the Arab League in Cairo, the council requested the Iraqi delegation to either recognize Kuwait's independence and drop their claim to Kuwait, or the Arab League would be forced to send Arab troops to replace the British. Kuwait was admitted to the League on July 20<sup>th</sup>, 1961, after the Iraqi delegate left in protest before the voting. The resolution, proposed by Saudi Arabia, welcomed Kuwait as a member, but it included Kuwait's commitment to request British troop's withdrawal as soon as possible and for the "Arab States to undertake effective assistance to preserve Kuwait's independence."<sup>694</sup>

Kuwait was anxious for an Arab force to replace the British to assure Arab governments of the genuineness of the June 19th declaration of independence from Britain and to affirm that the conflict stayed within an Arabian sphere. President Nasser championed the cause of protecting Kuwait and fiercely adopted the replacement of the British troops stationed in Kuwait with an army of Arab countries. Nasser's siding and the Arab League's proposal to place an Arab army in Kuwait became a bone of contention between the two revolutionary governments in Cairo and Bagdad and a source of possible internal strife in some other Arab countries. The predicament of two Arab Armies, in the revolutionary atmosphere of the

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<sup>694</sup> Arab League Resolution concerning the Status of the Arab League force in Kuwait, August 12<sup>th</sup>, 1961, source: Lauterpacht, E et al (eds). (1991) *The Kuwait Crisis: Basic Documents* p.55

1950s, on the opposite sides was hard to accept in many Arab capitals.

Despite the build-up of the British arm forces, the front stayed peaceful; but from London's perspective, the situation remained dangerous. By the fall of 1961, Macmillan was contemplating withdrawing the British Army provided a suitable alternative that would secure Kuwait's position was in place. It became evident that in a time of difficult economic situation and weakening of its currency, the British forces' replacement with an Arab contingent was a blessing and a lucky break for the British.<sup>695</sup>

An agreement for establishing an Arab League Security Force for the defense of Kuwait was signed on August 12<sup>th</sup>, 1961, between Kuwait' Government and the Arab League. Soldiers from Saudi Arabia, Egypt, Jordan, Tunis, and Sudan began to arrive, representing the Arab League, labeled by Qassim as "Arab mercenary." The Arab force was militarily insignificant, but it was politically relevant. The British military assessed that the Arab contingent would hold their position for 36 hours at the most if the Iraqi army invaded.<sup>696</sup> It was nonetheless full of anomalies. The arch-enemies, Egypt and Britain, were on the same side against an Arab revolutionary, while the Egyptian army served side by side with the Saudi and Jordanians considered by Nasser as reactionaries. Despite the British apprehension of the presence of the UAR armies in their historically dominated region, they felt at ease once Jordan agreed to join the Arab forces. Gradually the British force withdrew to their bases in Bahrain and Aden; by October 10<sup>th</sup>, their withdrawal was completed.

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<sup>695</sup> James Barr, *Lords of the Deserts, Britain's struggle with America* p. 293

<sup>696</sup> Helene von Bismark, *The Kuwait crisis of 1961 and its consequence for GB* p.84

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Just two months after their arrival, UAR's forces withdrew in October 1961 from the Arab contingent. The secession of Syria from its union with Egypt in September and the coup in Syria, and the subsequent collapse of the United Arab Republic was the most plausible explanation behind the withdrawal of the most prominent member of the Arab force on the Kuwait/Iraq border. It reflected Nasser's dismay at the dismantling of the only Arab Union pilot between Egypt and Syria, or perhaps the late realization of his misplaced support to a government strongly tied with the British imperialist against the revolutionary brothers in Iraq.

Egypt's withdrawal from the Arab forces revived Qassim's hope of overrunning Kuwait, except by then, he had entangled himself in the complicated internal affairs of his country. According to the British Ambassador in Bagdad, his forces were committed in Kurdistan and had kept a force ready against development in Syria and troops in Bagdad for internal security.<sup>697</sup> Though Iraq's claim over Kuwait never wavered, the initial blitz had waned, and the military threat had almost died out. Clearly, the Arab Army in Kuwait was never a match for the Iraqis, but the presence of the Egyptian contingent was politically powerful enough to deter Iraq from testing the waters.

A year later, most Arab contingents withdrew in December 1962, and no other Arab countries agreed to provide a replacement despite the Arab League's persistent attempts. The conflict finally ended two months later, on February 8<sup>th</sup>, 1963, once Qassim was overthrown in another military coup.

The British intervention to prevent the annexation of Iraq strengthened British presence and prestige in the

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<sup>697</sup> Top secret notes by the Secretary of State for Foreign Affairs to the Cabinet, under the heading, Syria, and Kuwait, dated October 6<sup>th</sup>, 1961 C. (61) 152

Gulf. In a letter from the Political Resident Sir William Luce to the Foreign Secretary, Luce noted that "British stock in this area has perhaps never stood higher than it did on the morrow of our intervention in Kuwait."<sup>698</sup> Britain's formal termination of its commitment to defend Kuwait was agreed upon between the two countries in 1971 when Great Britain finally withdrew from the Gulf.

## **The Constitution**

Only two months into its independence, the Sheik, in a defining moment, declared on August 26<sup>th</sup>, 1961, his intention to govern the State through a written constitution. Despite his awareness of possible resistance by some influential members of the ruling family, it was Sheik's long experience during the failed 1938 Majlis, his prudence, and his desire for change that set the tune. The Constitutional Assembly was elected by all eligible male constituents in the country on December 30<sup>th</sup>, 1961. The new Council was a mix of powerful merchants, emerging educated middle class, and representatives from the rural and urbanized population living out of Kuwait town. Coincide with the formation of the elected Constitutional Assembly, the first-ever Cabinet or Council of Minister headed by a Prime Minister was decreed in January 1962. Except for three members of the old merchant class, all members were from Al Sabah family.

The Assembly was entrusted with the momentous task of drafting the constitution that would define the State's foundation, establish civil rights, proper juridical order, and political direction. However, the major obstacle to

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<sup>698</sup> Letter from Sir William Luce to the Earl of Home, No.98, 22 November 1961, FO 371/156670 cited in Helene von Bismark, *The Kuwait crisis of 1961 and its consequence for Great Britain's Persian Gulf Policy* p. 92

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overcome during the long and tedious discussions was the historical role of the Ruling family in governing the country. The imminent change from an absolute rule to the separation of powers, though supported by Sheik Abdulla Al Salam, was understandably resisted by those in power.

The Sheik decreed the draft Constitution on November 11<sup>th</sup>, 1962. It defined Kuwait as a “constitutional monarchy” under which sovereignty resides in the people, the source of all powers. The Constitution guaranteed absolute freedom of belief, freedom of the press, freedom of speech, employment, and a universal welfare system for the population. The declaration that “all-natural resources and all revenues are the State’s property” turned oil concession and the underground reserve to the State in defiance of the prevailing attitude around the Gulf.

## 13 OPEC: The New Paradigm and the Price Escalation

*"In view of the area's dominant position in the current world oil movement, as well as in reserves for the future, it should be clear that any understanding of the control over world oil must begin with the evolution of control over Middle East supply."*<sup>699</sup> John Blair

### Prelude to OPEC

The international oil companies continued to be in the driver's seat throughout the fifties and the sixties; they controlled both ends of the industry and everything in between. Even with the money rolling into the oil-producing countries' vaults, production levels, marketing, and prices were decided and managed by the oil companies entirely out of the oil-producers government's hands. Perhaps the closest attempt to wrestle some power out of the major oil companies' hands was tried in 1951 by the Persian Prime Minister Mohammad Mosaddeq but to no avail. Although Mosaddeq's nationalization attempt was an eye-opener, the international oil companies were not

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<sup>699</sup> Blair, John, *The Control of Oil*, p. 29, Vintage Books

ready to cede their control fostered over a few decades. Soon, new challenges were looming.

The increase of oil finds in diverse parts of the world post-World War Two and the rapid consumers' expansion was destined to change the long-established marketing pattern and the relationship between those involved. The long period of freedom enjoyed by the Majors in setting up production and marketing patterns was coming increasingly under pressure, not by the local governments, but by stiff competition from the emerging western independent oil companies. The Libyan Government's deliberate decision to award their concession to independent oil companies rather than the Majors and the award of the concession of the Neutral Zone between Kuwait and Saudi Arabia to the independent eventually weakened the Major's traditional hold and disrupted pricing and production mechanism.<sup>700</sup> The newcomers developed their own vertical integration, built large refineries, and infiltrated cities and towns in the United States with their low-cost neighborhood outlets. Despite the international oil companies' domination of the global markets, the independents' challenge was mostly disruptive; the American Ambassador in London noted: "the advent of Occidental on the scene was not warmly welcomed by all the other companies."<sup>701</sup>

The persistent weakening of the world markets after the reopening of the Suez Canal in 1957 lowered the actual market prices and widened the divergence between the dynamic market price and the static posted or published price.<sup>702</sup> Change to market prices, stimulated by fierce rivalry between the oil companies, was not too relevant for

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<sup>700</sup> Blair, John, *The Control of Oil*, p. 207, Vintage Books

<sup>701</sup> Multinational report 1975, p. 99

<sup>702</sup> Posted or published price is long term and more stable than market price, but rarely applied. Instead, the fluctuating market price is used in the daily dealings.



the oil-producing governments. Practically, all the profit-sharing agreements in the Middle East were based on the posted prices; changes in the market price, premiums, and discounts by the Majors were not of any concern for oil-producing countries as long as the published prices were maintained. Market, or realized, prices affected the oil companies' profits but had no bearings on the oil-producing countries' revenues.

The stable and somewhat higher posted price had so far immunized the oil-producing countries from the constant fluctuation of market price and preserved their revenues even as the prices fell.<sup>703</sup> Faced with possible losses, the oil companies, led by Esso, unilaterally lowered the posted price in 1958 by 10 US cents a barrel, closer to the market price, to improve their margins and competitiveness. Understandably lower posted prices did not go down well with the host countries; their whole budget revolved around oil, and the need for funds to finance much-needed infrastructure was vital. For most Middle East countries, lower revenues were certain to impact their trade balance, their new standard of living, the new welfare set up, and the massive infrastructural development plans. Moreover, the deliberate preclusion of the producing countries in the decision-making process touched a nerve.

The oil companies refused the oil-producing countries' request for consultation the next time the companies were contemplating reducing the posted prices. Their refusal to consult the oil-producing governments or justify posted price changes was not too unreasonable. Discussion of their price policy would force the companies to divulge their marketing strategy, considered an exclusive industry knowledge developed over decades, and to a certain extent, formed the basis of their policy. Yet, the oil-producing countries' request for consultation was part of

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<sup>703</sup> Blair, John, *The Control of Oil*, p. 261, Vintage Books

the understanding that the oil companies “play their role in regulating the international market was in co-operation with their governments not against them.”<sup>704</sup>

Unlike the oil-producing governments of the Middle East, the oil companies viewed price adjustment as merely a reflection of an economic situation based on market dynamics in isolation from any political influence, while the governments regarded any adjustments as an infringement of their sovereignty. Frustrated by the oil companies’ actions, the stage was set for oil-producing countries to react. A Clash was inevitable; the necessity for a collective approach by the oil-producing governments in response to the unilateral decision-making was only a matter of time. The concept of a united front to confer the oil companies had been talked about in the revolutionary atmosphere of the Middle East and fermented in the minds of the politicians and the attitudes of the oilmen of the exporting countries. The notion of sovereignty over resources was continuously the theme in the publications and the Arab media at the height of Arab nationalism.

## **The United Front of OPEC vs. The Oil Companies**

The backroom meetings held during the Arab Petroleum Congress in Maadi, a suburb of Cairo, in April 1958 had all the elements needed to change the relationship between the perceived imperialist oil companies and the nationalist movement. Its venue, Cairo, the capital city of Nasser’s Egypt, nationalist and fiercely anti-imperialism, was

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<sup>704</sup> “The Oil Surplus Analyzed” *Economist* (London, England) 1 Oct. 1960: 69. The Economist Historical Archives. Web. 2 July 2019.

inspiring. The participant in the informal meeting, the Saudi oil minister Abdulla Al Tariki, Venezuela's Perez Alfonzo, and representatives from Iran, Iraq, and Kuwait, had their issues and grievances with the oil companies, most critically the unilateral reduction of posted prices a couple of months earlier. They signed a secret "gentlemen agreement or Maadi Pact" that was kept informal and confidential for all practical purposes. The Venezuelan Oil Ministry was quoted as saying, "there was no concrete arrangement with Arab countries, and perhaps no formal arrangement is necessary if everyone works in the same direction."<sup>705</sup>

Nonetheless, they agreed, behind closed doors, to form an oil Consultation Commission made up of the same five countries to address their collective problems with the oil companies, including improvement to the contractual terms of their concessions and the modest request for consultation whenever the oil companies were contemplating changes of posted prices. The first indication of formal unity and the desire to forge an organization came during a press conference in Caracas in May 1960. Perez Alfonzo stated that "Venezuela would be prepared to enter a bloc composed of Venezuela, Iraq, Iran, Saudi Arabia, and Kuwait to stabilize the market and defend oil prices."<sup>706</sup> However, many in the oil industry presumed that any organization would be short live and would collapse under political disagreements between its members.

The pretext needed to unite and form an organization that could secure oil-producing countries' interests finally arrived. Esso once again reduced the posted price in August 1960 to bring it closer to the heavily discounted

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<sup>705</sup> Ian Skeet, *OPEC: Twenty-Five Years of Prices and Politics*, p. 16 Cambridge University Press

<sup>706</sup> Ian Skeet, *OPEC: Twenty-Five Years of Prices and Politics*, p. 17 Cambridge University Press

market price, without prior consultation with the host countries; this time by 14 US cents to \$1.76 a barrel, even below the 1953-1957 average prices. Other oil companies sensing possible confrontation, reluctantly followed; BP even expressed their hope of deferring the price cut. Persistent high crude availability from the existing fields and the rapid increase from the new oil fields managed by the Majors and the Independent newcomers soon led to price-cutting. Concession's holders were caught between the heavy discount they were compelled to give to their customers and the higher posted price they had to pay the oil-producing governments. To protect their diminishing margins from their refining and marketing and decrease their tax obligation to the oil-producing countries, lowering the posted price was, in Esso's judgment, the easiest route. Despite the justification, the lowering of the posted price was somewhat deliberate. The oil-producing countries' suspicion was later confirmed by Frank Jungers, the CEO and Chairman of Aramco, stating in an interview that when prices of other commodities were rising, "each of the oil companies made every effort to keep the posted price down."<sup>707</sup> Esso's board room indifference to the political sensitivities of the Middle became the inspiration to bring the collective action of the oil-producing countries. Esso's 6% cut incensed the host countries; with no signs of market reversal, they warned that they would not tolerate yet another cut in the posted prices.

The impression created by the International Oil Companies (IOC) of possible losses resulting from the drop in crude price in India and Japan and the imposition of

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<sup>707</sup> from Construction Engineer to CEO and Chairman of Aramco, 1948-1978, "an oral history conducted by Carol Hicke, in American perspective of Aramco, the Saudi Arabian Oil-Producing Company, 1930s to 1980's" Regional Oral History Office, The Bancroft Library, University of California Berkeley 1995 page 84

mandatory imports quotas by the US Government in 1959 was somewhat exaggerated. The fact remained that their vertical integration, low production cost, and their enormous profits from their Middle East fields had until then financed their expansion and were enough to weather a reduction in the market prices rather than risk an expected confrontation. During OPEC's Beirut conference, the Saudi Oil Minister Abdulla Al Tariki accused Aramco "of having concealed from his government the discount they received; so that his government takes was only 32 rather 50 percent of the profits."

Members of the Oil Consultation Committee decided to meet in private only for the second time, with the hope of reviving the long-cherished aspiration of uniting the oil-producing countries. Encouraged by the Venezuelan Oil Minister, the five exporting countries, Venezuela, Saudi Arabia, Iran, Iraq, and Kuwait, were invited by the Government of Iraq to meet in Bagdad, another anti-colonial capital. The post-revolution Iraq was, at that time, in the midst of negotiation with the Iraq Petroleum Company, while Kuwait was still under the 1899 Treaty with Great Britain. The conference was perhaps an opportunity for Kuwait to appear on the international forum in an independent capacity.<sup>708</sup> Though Iran's stand was somewhat ambiguous, the Shah agreed to send a delegate to the Bagdad conference. The conference held from September 10-14<sup>th</sup>, 1960, concluded with the formation of the Organization of Petroleum Exporting Countries (OPEC) as a permanent intergovernmental organization. The new organization was intended to countervail the international oil companies' influence on the global petroleum scene. The Venezuelan Oil Minister Perez Alfonso, regarded as the most prominent OPEC

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<sup>708</sup> Middle East Oil, January 1959, cited in BP arc 8558E "The Demise of The Tehran Agreement" p. 11

founder, declared that OPEC intended to “stabilize the markets and defend oil prices.”<sup>709</sup> On the eve of the formation of OPEC, Alfonso announced with an enthusiastic tone, “we have formed a very exclusive club; between us, we control ninety percent of crude exports to the world markets, and we are now united. We are making history.”<sup>710</sup>

The new organization cut across race and nationality to exclusively deal with their common interest. Despite their wild spectrum of political ideologies and even enmities between some of its members, OPEC somehow survived the impending rivalry and political conflicts of its member States. Their objective to have an economic gain was the same and was strong enough to overcome their political differences. OPEC’s European location, in Geneva and later in Vienna, shielded it from the acute political differences between the radical and conservative perspectives of its members and the political bickering of the Middle East. But not for long. The conflict between Kuwait and Iraq in June 1961, only days after Kuwait gained its independence, advocated Iraq to withdraw from OPEC, but rejoined after the overthrow of Qassim’s government in February 1963. Nonetheless, OPEC’s demise remained a possibility; the Shah of Iran warned in a press conference that even a small defeat would be the end of OPEC.<sup>711</sup>

The Organization was preoccupied in the pre-1967 war in setting up its structure and administration and establishing formal relations with several United Nations bodies. It was fairly quiet in the first decade of its history; perhaps its European location and the slow development

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<sup>709</sup> Ian Skeet, *OPEC: Twenty-Five Years of Prices and Politics*, p. 17 Cambridge University Press

<sup>710</sup> Anthony Sampson, *The Seven Sisters, The Great Oil Companies and the World They Made*, Chapter 8

<sup>711</sup> Taleah, Arabic Weekly paper issued in Kuwait, February 1973

ensured its resolutions were drafted in reasonable language, away from the prevailing rhetoric of the Middle East. Their first OPEC resolution in September 1960 addressed their collective and immediate grievances and outlined their objective as stated: "no country can pursue a long-term petroleum policy if it remains aloof from others."<sup>712</sup> Its early resolutions revolved around their intolerance of any price cuts, the restoration of current prices to the level prevailing before the reduction, and the necessity for consultation with the members of the organization if any new circumstances arose.

Price discounts continued as marketing necessities, but another round of reduction of the posted prices was no longer realistic; the companies were not ready to push their luck. OPEC's collective approach of the founding members proved to be effective, at least in halting unilateral price cuts. OPEC's membership expanded in its first decade to include Qatar, Libya, and Indonesia, but its impact throughout the sixties was mild; its activities did not make the headlines, nor did it have the influence it had in the later years. Despite the new confidence of collectiveness, they continued to be apprehended of possible sanction of any of the producing countries, in reference to the 1951 embargo of the Iranian oil. OPEC's defensive mechanism was its unity. It declared that if "any of them should have sanctions applied against it by an oil company as a result of applying any unanimous decision by OPEC, no other member country should accept the beneficial treatment from the companies that might discourage the application of the OPEC decision."<sup>713</sup>

OPEC's presence placed the oil companies in an awkward position; tacitly, they felt uneasy negotiating

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<sup>712</sup> Resolution 1.1 of the 1<sup>st</sup> OPEC Conference, Bagdad, 10-14 September 1960

<sup>713</sup> Resolution 1.1 of the 1<sup>st</sup> OPEC Conference, Bagdad, 10-14 September 1960

with a collective body that represented the governments of the producing countries when they did not have the luxury of a united front for fear of the stringent US antitrust laws. Equally important, the oil companies were not ready to give up their domination so easily. The rivalry between OPEC members in the glut atmosphere of the sixties and the desperate needs of some OPEC countries for higher revenues that could only be achieved through the increase of their production further weaken oil prices.

The seven sisters continued to play the field to their advantage. In one country or another, the concession was theirs, and the authority to decide production allocation was in their boardrooms. They managed the industry through joint ownership of concessions, by an intricate allocation of production from each country, and by dealing with each country rather than the collectiveness of OPEC. They governed the individual rate of output of various producing countries in such a way as to attain a predetermined growth rate of overall supply.<sup>714</sup> In essence, the covert orchestration of production “into a smooth and uninterrupted upward trend in overall supply” was essential in maintaining the Majors’ domination.<sup>715</sup> The tightening of the oil markets, driven by a dramatic increase in energy requirement, closure of the Suez Canal post the six-day war in 1967, and OPEC’s united front finally altered the dynamics of the relationship between the oil companies and the landowners.

The Foreign Office in London and the oil companies did not take kindly to OPEC’s formation in Bagdad in September 1960. OPEC was viewed with skepticism mostly in the British press as merely an angry reaction to the price cut; it was labeled as just another attempt by third-world countries that were doomed to fail. The

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<sup>714</sup> Blair, John, *The Control of Oil*, p. 99, Vintage Books

<sup>715</sup> Multinational hearing part 9



Economist editorial predicated that “no strategic disposition of producer countries has a chance of being accepted to consuming governments.”<sup>716</sup> Even years later, the hostility in the western bureaucracies and media did not subside. The Foreign Office in an INTEL in 1966 concluded that OPEC objectives conflicted with the interests of the British Government and the governments of the major oil-consuming countries in as much as it made for a higher cost and reduced the profitability and balance of payment benefits of the European countries.<sup>717</sup> It described OPEC as “a pressure group formed by the Governments of countries in which the bulk of the oil moving in international trade is produced. Its prime objective is to prompt its member’s interests by helping them gain higher revenues from, and greater control over the production of oil and ultimately substantial participation in the international trade.” Nonetheless, the report concluded that OPEC was there to stay.<sup>718</sup>

### **The Breakout of Oil Prices**

Oil prices had hardly budged; if anything, it had declined by more than 80 percent in real term from the end of World War Two in 1945 to 1970. Even with the increase in their income, OPEC governments were, by the end of the sixties, facing monetary difficulties and under urgent

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<sup>716</sup> “From Baghdad to Beirut” *Economist* (London, England) 15 Oct. 1960. 263+. The Economist Historical Archive. Web. 14 July 2019.

<sup>717</sup> Circular from Foreign Office and Commonwealth Relations Office to Certain Missions No 30 INTEL, July 13th 1966 “The Organization of Petroleum Exporting Countries (OPEC)” (FO371/187600), Records of Kuwait 1966-1971 V6:1971

<sup>718</sup> Circular from Foreign Office and Commonwealth Relations Office to Certain Missions No 30 INTEL, July 13th, 1966 “The Organization of Petroleum Exporting Countries (OPEC)” (FO371/187600), Records of Kuwait 1966-1971 V6:1971

pressure for more revenues to fund their development projects. Kuwait was no exception; the oil company's payments since the 1950s had hardly changed, while expenses needed for Infrastructural development and supporting its welfare state were mounting. The Government resigned, post the 1967 war, to add an unforeseen annual commitment of KD 48 million, or \$150 million, to its expenses, as decreed by the Arab Summit Conference in Khartoum in support of the war-torn Governments of Egypt, Syria, and Jordan.

After the failed 1967 oil embargo imposed by some of its Arab members, OPEC was in ruins, and the fear of its collapse persisted. OPEC eventually recover; in the early 1970s, it mounted the first challenge to the oil company's price monopoly. The price structure that was so meticulously created and carefully preserved by the majors for so long was broken down faster than anyone could have anticipated. Combinations of factors were instrumental in strengthening OPEC's hands, most obviously the control of 85 percent of the global exported oil.

Though supply/demand balance was in the early 1970s, as noted by a Shell executive, it "remained one of potential surplus, yet the producing countries managed to reap the rewards of seller's market by creating a producer's monopoly."<sup>719</sup> With the increase in oil demand and slow development of other sources, mainly nuclear or coal, to fill the energy gap, demand for Gulf oil was by early 1973 outpacing its supplies. James Akins of the US State Department warned in April 1973 of chronic shortage and predicated a \$10 a barrel oil.<sup>720</sup> Shah of Iran summarized the situation in an interview with The New York Times in

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<sup>719</sup> Chandler, Geoffrey, "Some Current Thoughts on the Oil Industry", Institute of Petroleum, Petroleum Review, vol. 27, January 1973

<sup>720</sup> New York Time April 16<sup>th</sup>, 1973

December 1973; the oil companies “took oil and profited. They closed all the coal pits. They did not bother to find other sources of energy.”

It was the new revolutionary government of Libya under Colonial Qadaffi that intimidated the oil companies and drew the first blood. The oil discovery in Libya by Occidental and other independent consortia, rather than dominating Majors, the prolonged closure of the Suez Canal, and the shortage of supertankers to haul the Gulf oil around Africa gave the Libyan oil an exceptionally strong bargaining position.<sup>721</sup> The new revolutionary Libyan government exploited its geographic advantage soon after its September 1<sup>st</sup>, 1969 overthrow of King Idris. They forced the independent Occidental and eventually other oil companies, both independents and Majors, operating in Libya to cave in after a nominal resistance to a new price demand for its oil. The Libyan oil's posted price was raised by 30 cents in September 1970 and the tax rate from 50 to 58; other oil-producing countries soon followed.

It was during the difficult negotiation that the Libyan scored the first significant decision for OPEC and dismantled the long-standing unity of the oil companies in their very first test since Iran's episode in 1951. The oil companies' attempt to show a united front was undermined on more than one occasion by each company's desire to protect their own turfs. The independent oil companies were not interested in restricting their production or adhere to the “balancing mechanism” of the Majors, while Exxon and Shell, with interest in Libya and elsewhere, were unwilling to support the independent oil companies during the Libyan discussions. Exxon's rebuff of Occidental's requests to resist the Libyans scraped any

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<sup>721</sup> BP Document ARC 8558, Confidential BP Internal Report dated June 1<sup>st</sup>, 1972 on The Tehran Agreement p1

possibility of a united stand by the oil companies. The Foreign Office predicted that the oil countries would achieve their goals by virtue of the weakness and fragmentation demonstrated during the Libyan settlement.<sup>722</sup>

The Gulf oil countries were frustrated by their failure to amend the terms of their concessions when the companies agreed to increase the price of the Libyan oil rather easily "after a few months of rough treatment by a revolutionary regime."<sup>723</sup> Confrontation by the Libyans quickly ended the enigma of the majors' oil companies. From the Arab public's perspective, the Libyans had forced the powerful oil companies to meet their demands and embarrassed the Gulf Government's moderation, patient, and civility in dealing with the oil companies. The frequent publicity of the fact that "the Western Government levied taxes at an average rate of five dollars a barrel in their own countries and managed to raise more revenues" than the oil-producing countries resonated with the public and did not help to ease oil-producing governments' resentment.

Libya's price increase had its ripple effect. Just months ahead of the critical OPEC's Conference in Caracas in December 1970, Kuwait requested its posted price and its tax rate to be increased. As reported by the British Embassy in Kuwait, the Government in Kuwait was frustrated by "the disparity between the posted price for her crude and the posted price of similar Iranian and Iraqi crudes"<sup>724</sup> and by the increase of the Libyan posted prices

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<sup>722</sup> Confidential letter from Mr. P Fullerton, Oil Department, Foreign and Commonwealth Office London to United Kingdom delegate to OECD Paris, enclosed a paper "The Consequences of 21<sup>st</sup> OPEC XXI Conference 9-12 December 1970" (FCO 67/553)

<sup>723</sup> Letter from British Embassy to Foreign and Commonwealth Office October 11, 1970 ROK 1970 P 643

<sup>724</sup> Confidential Telegram 354 from British Embassy, Kuwait to Foreign and Commonwealth Office October 11, 1970, Posted Price of Crude Oil

a few months earlier. The Kuwaiti Minister of Finance and Oil chided the KOC representative and requested the presence of a team from the owners (Gulf and BP) to negotiate a new posted price for its crude.<sup>725</sup> The Companies eventually agreed, just months before the OPEC Caracas Conference, to raise the tax rate to 55 percent and an increase of 9 US cents per barrel of oil to \$1.68; the new arrangement was expected to add about \$115 million to Kuwait's 1971 revenue.<sup>726</sup>

Against the background of the Libyan episode and signs of possible oil shortage, delegates and representatives of OPEC countries adopted a series of resolutions in their meeting in Caracas in December 1970. They instituted a new tax base of 55 percent as a "minimum rate for taxation on the net income of the oil companies operating in the Member Countries" and a modest increase in the posted price to reflect the general improvement of the oil market.<sup>727</sup> They also recommended that a committee of the oil ministers of Iran, Iraq, and Saudi Arabia negotiate with the companies on behalf of all the six oil countries bordering the Gulf for a fair posted price. On the other end of the Middle East, the Libyans and the Algerians Governments had their own distinct demands. The Libyan once again led the way; they were ready to confront the oil companies for a further tax increase to 60/40 and demand a premium to make up for short-haul crude<sup>728</sup> that resulted from the prolonged closure of the Suez Canal.

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<sup>725</sup> Confidential Telegram 354 from British Embassy, Kuwait to Foreign and Commonwealth Office October 11, 1970, Posted Price of Crude Oil

<sup>726</sup> Confidential Telegram 423 from British Embassy, Kuwait to Foreign and Commonwealth Office November 24, 1970

<sup>727</sup> OPEC Resolution XXI.120

<sup>728</sup> BP Document ARC 8558, Confidential BP Internal Report dated June 1<sup>st</sup>, 1972 on The Tehran Agreement p3

## Showdown in Tehran

The Iranian Oil Minister invited the oil companies for a meeting in Tehran before January 12<sup>th</sup>, 1971,<sup>729</sup> with OPEC's members of the Gulf countries, described by The Economist as "Lordly demands." The meeting was to renegotiate the terms of the ongoing concessions, readjust the tax base, and increase the posted price in line with the Caracas recommendation a month earlier. Sensing the seriousness of the situation and the slow erosion of their influence, BP's Chairman approached the British Prime Minister to request the support of the Western Governments, otherwise "they would have no choice but to acquiesce in any legislation which the producer government might enact."<sup>730</sup> The parents' governments of the international companies (the United States, United Kingdom, France, and Netherland) agreed to support the companies in their stand for a global agreement equally applied to all concessions in the Gulf region and the North African countries.<sup>731</sup>

Just a day before the two representatives of the oil companies, George Percy, an Exxon director, and BP's Lord Strathalmond were due in Tehran, the chairmen and representatives of twenty-three oil companies, both majors and independent with a stake in the different concession of the Middle East met in New York to arrive at a common position. Although the oil companies realized that an increase in the posted price was inevitable, the outcome of the joint meeting in New York was designed to essentially show a united front. Their assertion on collective

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<sup>729</sup> "Lordly demands." Economist (London, England) 2 Jan. 1971: 53+. The Economic Historical Archive. Web. 19 July 2019.

<sup>730</sup> BP Document ARC 8558, Confidential BP Internal Report dated June 1<sup>st</sup>, 1972 on The Tehran Agreement p. 6

<sup>731</sup> BP Document ARC 8558 Confidential BP Internal Report dated June 1st, 1972 on The Tehran Agreement p. 4

negotiation with OPEC was encouraged by the US Department of Justice's exemption from antitrust rulings.<sup>732</sup> Their stated objective was to achieve an overall settlement with all oil-producing countries, a single all-embracing agreement for all OPEC countries without exception.

The meeting in the Iranian capital on January 12<sup>th</sup> between the representatives of the oil companies and the three oil ministers, the Saudi Sheik Yamani, the Iraqi Dr. Sadoon Hammadi, and the Iranian Minister Dr. Amourzegar, broke down shortly after its kickoff. Contrary to the expectations of the Gulf members, the representatives of the oil companies were not empowered to negotiate prices; they were merely on a fact-finding mission and were to seek clarification of the Gulf producers' demands but ready to table a proposal at an appropriate moment.<sup>733</sup> The Oil Companies' initial indifference soon changed; the break-off of the talks by the oil-producing countries and the warning of action against the companies in a planned extraordinary OPEC session was effective.

The Companies reacted with a proposal "drafted with such ambiguity and vagueness" that can only be interpreted by the OPEC's negotiation team in Tehran as the companies' unwillingness to negotiate.<sup>734</sup> Intimidated by possible leapfrogging between demands made by the oil-producing countries in East of Suez and those in North Africa that could lead to a spiraling increase in financial demands, the oil companies' proposal on January 16<sup>th</sup> an

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<sup>732</sup>BP Document ARC 8558, Confidential BP Internal Report dated June 1st, 1972 on The Tehran Agreement p. 7

<sup>733</sup>BP Document ARC 8558, Confidential BP Internal Report dated June 1st, 1972 on The Tehran Agreement p. 8

<sup>734</sup> Letter from OPEC's Negotiation Team to the Oil companies' Representative in the Tehran Negotiations, January 22nd, 1971, Records of Kuwait 1971, p. 329+

all-embracing negotiation between the oil companies and an OPEC team representing all its members rather than separate individual country or regional agreements.<sup>735</sup> Companies' offer was limited to the revision of posted prices of all crudes in the member countries of OPEC and with a "provision that the new levels should be subject to moderate annual adjustment against a yardstick of worldwide inflation."<sup>736</sup> They recommended the postponement of any further negotiation, though the reason for the request was somewhat vague. Plans for delays were perhaps intentional, as spelled out by the author of a BP strategy paper soon after the Caracas meeting in September 1970. He referred to the company's long-held attitude of procrastination; as he put it, "BP has a very strong vested interest in the status quo, and the temptation to continue the Fabian policy of delay and immobility, which we have successfully pursued for 20 years."<sup>737</sup>

OPEC acceptance of the global, or all-embracing approach was conditional on the companies' commitment before commencing any negotiations "that most favored terms and conditions prevailing in the OPEC members countries were generalized and applied to all OPEC member countries."<sup>738</sup> The Persian Finance Minister argued that collective negotiation would only produce a settlement of the highest common denominator, while the Shah rejected the notion of a joint meeting in his news conference on January 24<sup>th</sup>, calling the "companies' insistence on globalism as an example of neo-colonialist

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<sup>735</sup>BP Document ARC 8558, Confidential BP Internal Report dated June 1st, 1972 on The Tehran Agreement p. 9

<sup>736</sup>BP Document ARC 8558, Confidential BP Internal Report dated June 1st, 1972 on The Tehran Agreement p. 10

<sup>737</sup>BP Document ARC 8558, September 30th, 1971 P1 (65/82)

<sup>738</sup>Letter from OPEC's Negotiation Team to the Oil companies' Representative in the Tehran Negotiations, January 22nd, 1971, Records of Kuwait 1971, p. 329+



economic imperialism.” He urged the companies to accept separate negotiation and regional settlement<sup>739</sup> and warned that the Gulf countries would emulate Venezuela in forcing a unilateral price increase for its oil and tax rates of 60 percent if no agreement was reached.

Companies’ representatives agreed to resume negotiations and climb down from their earlier demand for a global negotiation with all members of OPEC. The oil companies presented two identical proposals to the Gulf and North African oil-producing countries, with the hope of separate but parallel negotiations in Tehran and Tripoli. OPEC’s rejection of a unified meeting was a blessing in disguise for the oil companies; negotiation on a regional basis saved the companies from the high demands of the North African countries. However, it was Shah’s explicit declaration that the Gulf would stick to the Agreement even if others had a better deal than that fixed during the standoff.<sup>740</sup>

On the other side of the Atlantic, the oil companies were encouraged to close ranks in an effort to manage OPEC demand for higher posted prices. The Chief Executives and representatives of the oil companies assembled in New York had worked out the industry’s offer after an exhausting discussion with their colleagues in the London Petroleum Group to be presented simultaneously to Gulf producers and Libyans in Tehran and Tripoli. Once again, the United States Government Department of Justice, in their endeavor to support the oil companies, waived the threat of the antitrust regulations.

On January 28<sup>th</sup>, Lord Strathalmond presented the companies’ offer. He proposed a general increase of 15 US cents a barrel for all crude oils produced in the Middle

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<sup>739</sup> BP Document ARC 8558, Confidential BP Internal Report dated June 1<sup>st</sup>, 1972 on The Tehran Agreement p. 19

<sup>740</sup> BP Document ARC 8558, Confidential BP Internal Report dated June 1<sup>st</sup>, 1972 on The Tehran Agreement p. 19

East and North Africa and a further provision to reflect the annual inflation, provided the oil-producing countries agreed to five years freeze on any new demands. The Gulf countries countered with their own proposal with a demand of 54 cents per barrel. The diverged views were not encouraging; the Iranian Oil Minister warned that drastic measures might be decided in the OPEC extraordinary Conference on February 3<sup>rd</sup>, including a hint of unilateral price-fixing and possible cessation of supply for a week if the negotiations broke down. Sensing trouble ahead, the oil companies' representatives requested the presence of a very senior oil executive to join the final session on January 31<sup>st</sup> in the hope of salvaging a deal.

Despite their awareness of the severe repercussions in the case of oil shortage in Europe, the oil companies, both Majors and Independent, preferred "possible showdown with OPEC than to submit to the current exorbitant demands."<sup>741</sup> The British and the American Governments were willing to give the companies diplomatic support to counter the oil-producing countries if the negotiations broke down; however, the American State Department hinted that they could not "give an unqualified endorsement of the companies' proposals as representing the limit."<sup>742</sup>

The wide gap contracted during the protracted negotiations, but the significant differences on the financial matters and the diverse positions of the two sides on most of the essential issues led to the inevitable collapse of negotiation just a day before the planned OPEC Ministerial extraordinary conference on February 3<sup>rd</sup>. With no signs of compromise, OPEC announced a new resolution calling on each member to issue its own legal and

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<sup>741</sup> BP Document ARC 8558, Confidential BP Internal Report dated June 1<sup>st</sup>, 1972 on The Tehran Agreement p. 25

<sup>742</sup> BP Document ARC 8558, Confidential BP Internal Report dated June 1<sup>st</sup>, 1972 on The Tehran Agreement p. 15

legislative measures to serve its objectives and a threat that all OPEC countries should take "appropriate measures including the total embargo of such a company"<sup>743</sup> in case of non-compliance. The oil companies were willing to face the challenge since they did not see any advantages in accepting OPEC's terms. Fearful of a possible supply cut, the UK government informed the oil executives that "most consumers' governments were more concerned about supply than price."<sup>744</sup> Oil availability from US emergency stocks of earlier days or US oil fields were no longer an option. Both the US and the British Governments were inclined to advise the companies to conclude a settlement rather than face sanctions that could be more harmful to the western economies. The oil companies resided to the mounting pressure, realizing that an agreement with the Gulf countries was preferable by all sides rather than facing OPEC's legislation against the companies.

By then, in the words of Frank Jungers, the Chairman and chief executive officer of Aramco, OPEC "had five aces."<sup>745</sup> An agreement was finally reached on February 14<sup>th</sup> between the oil companies and the six Gulf countries- Abu Dhabi, Saudi Arabia, Iran, Iraq, Qatar, and Kuwait against a background of the threat of possible sanctions (Appendix 10). The first real standoff was defused. The Oil producing countries had wrestled the power from Companies, as noted by a British diplomat, and in the process, had traded places rather easily.

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<sup>743</sup> OPEC resolution no XXII.131

<sup>744</sup> BP Document ARC 8558, Confidential BP Internal Report dated June 1<sup>st</sup>, 1972 on The Tehran Agreement p. 38

<sup>745</sup> From Construction Engineer to CEO and Chairman of Aramco, 1948-1978, "an Oral History Conducted by Carol Hicke, in American perspective of Aramco, the Saudi Arabian Oil-Producing Company, 1930's to 1980's" Regional Oral History Office, The Bancroft Library, University of California Berkeley 1995 page 151

The five years agreement was limited to the crude from the Gulf region; the posted price was increased by 33 cents a barrel, the tax rate was raised from 50% to 55%, and an annual upward adjustment of the posted price for inflation of 11 cents over the life of the Agreement. The Gulf producers explicitly assured the companies that change in the financial terms over the next five years other than specified would be avoided. As stated in the Agreement, "no Gulf States will seek an increase in Government take or other financial obligation over that now agreed." The new posted price for the Kuwaiti crude reached US\$1.9 per barrel, and according to the companies' estimates, the Tehran agreement would add \$10 billion to the six Gulf producers' treasuries over the next five years.<sup>746</sup>

No sooner than the Tehran agreement was signed, the Libyans forced the oil companies to increase the posted price by almost a dollar to \$3.45, surpassing the Gulf producer's deal. Despite the explicit promise for stable prices for the next five years by the Gulf countries, the Tehran Agreement became immediately fragile; further confrontation was inevitable, and the Agreement was heading for renegotiation sooner or later

Just a year into the signing of the Tehran Agreement, the oil companies reluctantly agreed to an increase of the posted price by 8.5 percent in January 1972, as a supplement to the 1971 Tehran Agreement, and again by 5.7 percent in April 1973 to offset the de facto devaluation of the US dollar. A final increase in the oil prices before the breakout of the 1973 war was further 12 percent in June 1973, this time by all members of OPEC. It was, however, during the negotiation in January 1972 that the oil-producing countries made their first indication of a

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<sup>746</sup> Blair, John, *The Control of Oil*, p. 226, Vintage Books

demand for 20 percent participation in the ongoing concessions.

The encounter between the two “united fronts” was not devoid of emotion and claims of injustice. President of the Revolutionary Council of Libya General Gadhafi had complained bitterly that his country was exploited; others enjoyed Libyan oil, he once announced, while Libyan people lacked water and electricity. The Shah of Iran expressed the same sentiment in his press conference; the end consumers, as he explained, paid \$14 for each dollar received by the producers. An article in the British Daily Mirror concluded the current paradox; “it’s a remarkable fact that two of the poorest areas in the world are the chief providers of the stuff that keeps the richest societies on the move.” The writer expressed his surprise that it took so long for the governments and the people of the Middle Eastern countries to realize that the “industrial powers have been getting their oil so cheaply.”<sup>747</sup>

Western media maliciously attacked OPEC for the repeated increase in oil price and the oil companies for submitting to OPEC so readily and without a fight. Persian and Arab press complained of the Western media’s attack and attempted to justify the higher prices. The Persian Etelaat wrote in their editorial on January 19<sup>th</sup> that “a rumor charges that the oil-exporting countries have caused a constant increase in oil prices by raising unending claims and demands,” and had denounced in the minds of consumers, “the logical steps taken by the oil-producing countries in securing the minimum legitimate right and interests.” Meanwhile, the Gulf papers attacked the consumer governments for forming a united front to back the oil companies. It was with the western countries’ power and facilities, as stated by one newspaper, the oil

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<sup>747</sup> Article by Geoffrey Goodman Daily mirror, London, England February 2<sup>nd</sup>, 1971, BP ARC99950 p. 14

companies resisted the demands of the oil-producing countries to safeguard their legitimate interests.

Signs of imminent energy crises were increasingly evident. There were already some indications of the US vulnerability; the shortage of heating oil in the winter of 1972 had forced some US cities to reduce their consumption almost a year before the 1973 embargo. Despite US oil production of 11.3 million barrels a day in 1970, the highest world producer at that time, the accelerated demand was increasingly filled by imports.<sup>748</sup> Oil demand was growing in the entire industrial world, including Japan, already the highest oil importer. Economic and oil experts were anticipating a doubling of oil consumption by 1985 but had no clues on how to meet the accelerated demand other than a drastic increase in the importation of the Middle East oil.

Market prices begin to rise closer to the posted prices in reaction to the expected shortage. Despite the apparent compliance with the Tehran agreement, the pressure was mounting within OPEC to amend the Agreement or even abandon the treaty altogether, as insinuated by Sheik Yamani that the Tehran agreement "is either dead or dying."<sup>749</sup> They felt that the current market prices demonstrated that the exporting countries were entitled to more money than those specified in the Tehran agreement. A committee was formed during OPEC's meeting in Vienna in September 1973, with an object to renegotiate the Tehran Agreement with the oil companies as soon as October 8<sup>th</sup>, 1973, rather than wait for the end of the Tehran Agreement in 1975. OPEC warned that their demand for a new price increase would be substantial.

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<sup>748</sup> Andrew Scott Cooper, *The Oil Kings, How the U.S., Iran, and Saudi Arabia Changed the Balance of Power in the Middle East*, p. 90

<sup>749</sup> Ian Skeet, *OPEC: Twenty-Five Years of Prices and Politics*, p. 87 Cambridge University Press

## A New Paradigm

While the October 6<sup>th</sup> war was still raging on its third day, the two sides met in OPEC's headquarters in Vienna. Sheik Yamani argued for a revised Tehran deal with a more flexible arrangement. He proposed to link the posted price directly with the market price since, as he put it, "we are fed up with sitting down to negotiate." The companies were ready to accept a new price increase; they offered a rise of 60 cents a barrel, while OPEC's opening position doubled the posted price or an increase of \$3. The meeting went nowhere. OPEC's Gulf countries' next move came a week later during their meeting in Kuwait. Amid the emotional euphoria of the ongoing fierce October War, the six Gulf oil-producing countries made their announcement without referring to the concession holders. They declared, during their October 16<sup>th</sup> meeting, an immediate escalation of the posted price of their oil from \$3 to \$5.1 and built-in flexibility, suggested by Sheik Yamani in Vienna earlier that month, essentially tying the posted prices to the market prices.

But, the more dramatic decision was yet to be announced. The six OPEC countries, Iran, Iraq, Saudi Arabia, United Arab Emirates, Qatar, and Kuwait, declared that they would set market and tax reference prices for the crude oil "unilaterally" and without further negotiations with the companies. They virtually ended the long-established pricing structure controlled and preserved by the oil companies, perhaps since the days of the Anhnacarry Castle Agreement in 1928. Instead, oil prices would only be decided in OPEC's headquarters and by the oil-producing countries' governments rather than the boardrooms of the oil companies in the western capitals. Their announcement concluded the first shift of

power from the oil companies to the governments that started with the Tehran agreement in February 1971. The decision established a new phase of the relationship between the oil-producing countries and the rest of the world in the global oil market. Other changes were forthcoming.

OPEC realized that its relationship with the rest of the world could not forever be through the oil companies. The new role of setting prices by OPEC's members was predicated by the British Government as early as January 1959. In a report on the Middle East oil, the author noted that "the level of the posted prices is a matter of legitimate concern to the concessionary Governments and a subject which they have tended to regard with considerable suspicion."<sup>750</sup> OPEC's move relieved the oil companies of the burden of convincing the consumer government and the public, conveniently deflected blame for the price escalation to the oil-producing countries.

The companies' loss of price control and the sharp increase in oil prices did not alter the fact that it was not only the oil countries that were enriched; concessions holders' profits accelerated drastically even before the unfolding drama of the war. The unexpected increase in the market price improved companies' margins; the Saudi Petroleum Minister Sheik Yamani stated the obvious, "when the price rise, their profits increase."<sup>751</sup> Companies soon reported spectacular profits during 1973; Shell doubled its profits in the first half of 1973, while Mobil profits increased by 25 percent over the same period, and British Petroleum announced a 340 percent increase in net income to 310 million pounds.<sup>752</sup> The consumer governments paid for the price escalation; in October

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<sup>750</sup> BP ARC 8558E "The Demise of The Tehran Agreement" p. 7

<sup>751</sup> Blair, John, *The Control of Oil*, p. 281, Vintage Books

<sup>752</sup> "Boom to gloom" *Economist* (London, England) 16 March 1974: 100. The Economist Historical Archive. Web.20 July 2019



1973 alone, the annual cost was increased by \$3 billion in the United States, \$1 billion for the UK, and \$2.5 billion for Japan.

Despite the widespread perception that the increase in oil prices started with the 1973 war and the ensuing boycott, it had started in September 1970, first by the Libyans, followed by the Gulf producers. Even before the outbreak of the October War in 1973, oil prices had already climbed by 70 percent,<sup>753</sup> and the drive toward nationalization of the Middle East oil was being urged by the local press and the public.

The years before the 1973 war were hectic enough for the industry, but still, it was only a prelude to the eruptive and frenzied situation during the days of the October War and beyond.

The breakout of the war and the declared embargo of oil to the US and some other western countries on October 19<sup>th</sup> changed the oil market's perception. Calls for production cut and the boycott was familiar enough in the Arab media and with the government officials but was not foreseen or taken seriously by the West. The US Government and, to a larger extent, the American public were caught off guard. The headlines announcement on the Major television stations' evening news the day the embargo against the United States was announced continued to be Watergate rather than oil boycott. The historical capabilities of the US energy to expand production when needed were no longer available. Texas, Oklahoma, and California oil fields were no match for the expanding consumption, while the exploitation of the newly discovered oil fields of Alaska was vigorously debated between the oil companies and the conservationist. The embargo exacerbated the perception

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<sup>753</sup> Andrew Scott Cooper, *The Oil Kings, How the U.S., Iran, and Saudi Arabia Changed the Balance of Power in the Middle East*, p. 110

of a dire shortage of oil, slowed down the economic expansion, and for a short while caused panic in the United States and other Western Countries.

Gulf members of OAPEC (Organization of Arab Petroleum Exporting Countries) agreed on October 16<sup>th</sup> to cut their production by 5 percent per month and declared suspension of oil export to the US and the Netherlands. Production cutbacks did not last long; it was increased just three months later, in January 1974, by 10 percent. The embargo was easily managed by the other oil producers and the oil companies, but the fear of a prolonged boycott was reflected in the sight of long gasoline lines encircling city blocks in the United States and other Western countries. Long waits, motorists' short tempers, and panic at the pump became a common sight. Ration was soon instituted for a short period based on odd or even number of the license plates.

Though oil prices increased dramatically, partial embargo proved to be pointless; any shortage in the United States or the Netherlands was conveniently supplemented by other producers, supported by the oil companies' distribution matrix. Sheik Yamani, the Saudi Oil Minister, eventually acknowledged that the embargo "did not imply that we could reduce imports to the United States; the world is just one market." He admitted that the blockade was "more symbolic than anything else."<sup>754</sup>

Prices were ready to go higher once again amid the ongoing embargo and the uncertainty of an orderly market. In the aftermath of Iran's auction of a small amount of crude as high as \$17 a barrel in December 1973, the Gulf members of OPEC surprised the US and other Western Governments with an unexpectedly large increase in oil prices. On December 23<sup>rd</sup>, they announced

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<sup>754</sup> M. A. Adelman, *The First Oil Price Explosion 1971-1974* MIT-CERP 90-013 WP, May 1990

that their take (rather than oil price) would be more doubled from \$3 to \$7 for a barrel of Arabian Light (equated to the posted price of \$11.65). The spike in the price encouraged oil producers to increase their supply causing spot prices by late January 1974 to nosedive but ultimately stabilized. By June, oversupply was apparent, but the market price stayed high and was even rising.<sup>755</sup> By then, OPEC Gulf members' attention had shifted to the increase of their participation in the concessions in their territories to 60 percent.

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<sup>755</sup> M. A. Adelman, *The First Oil Price Explosion 1971-1974*, p. 57  
MIT-CERP 90-013 WP, May 1990

## **14 Sovereignty of Wealth**

No sooner than the battle for the price agreement in Tehran was concluded in February 1971, a new front emerged. Public demand for participation or outright nationalization in the tense atmosphere of the region post the 1967 war was gaining traction and was soon reflected in OPEC's "Declaration Statement of Petroleum Policy in Member Countries" issued in 1968. It became more evident post-Tehran's agreement that the longer view of the Middle East's oil-producing governments was to end all concessions by the end of the seventies. In an article in *Economics*, as early as 1970, interestingly titled, "The next oil war has begun," the writer noted that "the new policy of the oil-producing countries is that all of them shall be

scraped by 1979.”<sup>756</sup> Even the end of the seventies was not soon enough for some.

More critical and more complex than the price escalation that started in 1971 by the Libyans was the wave of the takeovers of the oil concessions and assets by the host countries either through outright nationalization or by the milder form of State participation. Although the prevailing long-term concessions had brought market stability and price predictability, its terms were always viewed by the oil-producing States as heavily skewed in favor of the oil companies and the consuming countries. Dissatisfaction over the lopsided benefits and the upsurge in nationalistic sentiment eventually led to changes in the relationship between the two. To a certain extent, OPEC’s collective strength was the catalyst needed for qualitative and radical change.

Unlike the takeover notion, participation was more of a partnership; the host government took an ownership stake in the oil company’s assets in its territory in lieu of agreed compensation. Participation rather than nationalization was more in tune with the governments’ attitude around the Gulf. Sheik Yamani, the Saudi Minister of Oil and Mineral, argued that oil-producing countries should partner with the oil companies in what he described as a Catholic marriage. He noted that “national oil companies cannot replace the majors and insisted that the international oil companies’ role should be sustained; we need their expertise.”<sup>757</sup>

The oil producers in the Gulf viewed gradual and negotiated participation as a fair and logical substitute to nationalization. Participation would allow oil-producing

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<sup>756</sup> “The next oil war has begun” *Economist* (London, England) 31 July 1971: 51+. The Economist Historical Archive. Web. 6 Aug. 2019.

<sup>757</sup> Taleah (Arabic), Kuwait Weekly paper, January 17<sup>th</sup>, 1973, p. 7

countries to join the management of the oil business without disrupting the global markets or ceasing oil exploration and production activities. Nonetheless, demand for full and immediate nationalization in some Gulf countries was gaining ground. The need for significant capital claimed by the oil companies for its operation expansion and new exploration was considered by some in the Gulf as a means to discourage the local governments from nationalization or participation. Kuwait's weekly newspaper, *Al Taleiah* repudiated the oil companies' claim for large capital; the writer referred to a Chase-Manhattan Bank report that the fund employed for oil exploration throughout the Middle East between 1960 and 1970 did not exceed \$440 million, a mere one percent of the profits made by the operating oil companies.<sup>758</sup>

OPEC's members' intention to share in their natural resources was first announced in June 1968 in the "Declaration Statement of Petroleum Policy in Members Countries." It referred to the United Nations' notion of the inalienable right of all countries, "to exercise permanent sovereignty over their natural resources in the interests of their national development."<sup>759</sup> The Algerians were the first to move in that direction; in February 1971, they nationalize 51 percent of the two French oil concessions operating in their territory, soon followed by the more revolutionary countries of the Middle East.

The Algerian move encouraged other OPEC members to demand participation as was intended in the 1968 Declaration. A resolution was passed in OPEC's Extraordinary Meeting in Beirut on September 22<sup>nd</sup>, 1971, after six months of intensive study, declaring that "all member countries concerned shall establish negotiations with the oil companies with the view of achieving effective

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<sup>758</sup> Taleah (Arabic), Kuwait Weekly paper, October 28<sup>th</sup>, 1972

<sup>759</sup> OPEC: Vision, Mission and Development

participation.”<sup>760</sup> OPEC’s new initiative to share in the concession was a demand for a share in the company’s equity and the beginning of a grass-root change to their long relationship.

North African countries (Algeria and Libya) were moving in the direction of partial or complete nationalization of the assets with unrelenting speed. The new revolutionary Government of Colonial Qaddafi in Libya soon followed the Algerians; they nationalized British Petroleum holdings in December 1971 as a reaction or, perhaps an alibi, to Shah of Iran’s takeover of three islands in the Gulf. Iraq, despite its location in the Gulf region, took a similar route. Years of mutual mistrust, continuous under-production of the Iraqi field, and under-investment by the Iraq Oil Company finally came to a head. They nationalized the Iraqi Petroleum Company (IPC) on June 1<sup>st</sup>, 1972, in a fiery speech by President of Iraq, Ahmad Hasan Al Bakr, estimated by the oil companies to be worth a billion dollars. OPEC supported the Iraqi move as a “lawful act of sovereignty to safeguard its legitimate interests” and send a clear message to the oil companies that solidarity with Iraq was unwavering in case of unilateral action.

The Gulf Countries were watching the initiation of nationalization in North Africa with interest. Aside from their national aspirations and the desire to control their sovereignty rights, the temptation of the profits made by the companies was strong enough to drive the oil-producing countries to demand a share in the concessions in their territories.<sup>761</sup> The US Department of Commerce’s estimate of the total profit of the companies in the Middle East of \$1.2 Billion, with a return of 79% on net assets, only reinforced the oil-producing countries resolve to

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<sup>760</sup> OPEC Resolution XXV 139

<sup>761</sup> “In full retreat” *Economist* (London, England) 18 Mar. 1972: 89+. The Economist Historical Archives. Web. 9 Aug.2019

## SOVEREIGNTY OF WEALTH

demand a share of their natural resources; this time through owning part of the concession.

Unlike the North Africans, the more moderate Gulf countries decided on a collective approach backed by OPEC to negotiate or renegotiate the existing concession rather than outright nationalization. Their first move came in January 1972, only a month after the Libyans nationalization of BP. The Saudi Oil Minister Sheik Yamani, designated by OPEC as a chief negotiator for the five Gulf countries, request for negotiation of the notion of participation in the concessions was met with mixed reaction. Though most oil companies accepted Yamani's proposal, there were voices in the industry that were reluctant to even "respond to the request by OPEC for talks on participation since this would amount to an opening of negotiations when there was nothing to negotiate about."<sup>762</sup>

Understandably, the landowners' participation in the concessions was a point of contention between the companies and the oil-producing governments even before it was officially announced. The oil companies professed the long-term implication of sharing concessions as a threat to the status quo and possibly a threat to the steady oil supply vital for its vertical operation. BP even claimed participation as a risk to its existence if all its concessions were expropriated the same year.<sup>763</sup>

Nonetheless, the industry realized that it was only a matter of time and degree before they conceded to participation demand.<sup>764</sup> Although severe differences between the oil companies themselves in their attitude

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<sup>762</sup> Internal BP Letter from R. Belgrave to D. Steel, "McCloy", August 31st, 1971, BP ARC 112636 p. 89

<sup>763</sup> BP secret note OPEC, written by Dutton, September 30th, 1971 BP ARC 8558 p 66

<sup>764</sup> BP Letter dated 29th Oct 1971 from H. E. Norton on OPEC resolution BP ARC 8558



toward participation, most concession holders recognized that Gulf governments' intention to seek a participating interest in the oil operation in their own countries was not in principle unreasonable.<sup>765</sup> They realized that compromise over participation was inevitable. Still, as expressed by BP Executive, their only hope was "to use the sources of strength in our position to maintain the status quo at least until 1976, we should nonetheless be ready to put up a fight and discuss what is to happen thereafter."<sup>766</sup> BP executives and perhaps some of the Majors needed time to cushion their internal change from concession ownership to more of crude oil purchasers and traders. With little surprise, Kuwait managed to conclude its negotiation for full ownership of Kuwait Oil Company only in December 1975, just as BP had hoped and perhaps steered.

The fight for control of oil was critical for both the Government and the oil companies. It was a struggle for the soul of the oil industry and the ownership and control of the present and future petroleum resources. Despite the change of the market forces and the geopolitics of the Middle East, the oil companies in reminiscence of 1951 Iran's conflict were not ready to surrender without a fight or give up the profitable business they practically founded and assiduously controlled for such a long time. Although companies' hold on the global markets was still strong, OPEC's solidarity to disallow the companies from increasing production in one country in case of a boycott of any of its members loosened the oil companies' grip and eradicated the possibility of repeating the Persian episode of 1951.

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<sup>765</sup> BP Letter dated 29th Oct 1971 from H. E. Norton on OPEC resolution BP ARC 8558

<sup>766</sup> BP executive discussion with Akins, from US State Department in NY on September 24th, 1971 BP ARC 118926 p 122

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To a certain extent, both oil-producing governments and the oil companies were apprehensive of the proposed 20 percent partnership suggested by Gulf countries. Many of the oil companies' executives had long feared the complication of participation and the strain of minority holding. They realized that they would eventually be forced to balance the contradictory objectives of the oil producers and the consumers and the necessity of handling the constant pressure on whether to satisfy international expectations, their shareholders, or meet the producers' demands.

There were even voices in the oil industry itself more inclined to abandon the concessions rather than the complication of managing partnership arrangements or forced into siding with the oil producers. In a paper by BP in October 1971, the writer expressed his anxiety "that total withdrawal might be better than gradual retreat. Even with minority holding and certainly with a majority one, a producing government will probably successfully reduce or eliminate a concession company's control over such matter as the rate of off takes, export destination and method of transport."<sup>767</sup> Oil executives' skepticism was matched by the public opinion in the producing countries. The media in Kuwait grumbled that minority participation would not even allow a meaningful involvement in the decision-making of the Oil Company, let alone effective control.

Nonetheless, most oil executives were not prepared to let go of their valuable concessions so readily; the business was so lucrative that it was worth it every extra day. They informed OPEC that their 20 percent participation proposal was simply unacceptable. They developed a doomsday scenario that ranged from oil

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<sup>767</sup> BP Letter from A H Dutton, Economic Relations Department, on OPEC resolution dated 26<sup>th</sup> October 1971, BP ARC 8558 p6

companies' reluctance to invest in the industry, discouragement of R&D, and the attrition of technical and managerial talent in the industry. The companies soon formed a Lawyers' Committee to define and defend companies' position on the current participation rights. It was to decide on the legality of OPEC demand and to recommend companies' positions during the inevitable negotiation with OPEC. The consensus view among the team was that neither the existing concession nor the Tehran Agreement made any provision for government participation; it was therefore inconsistent with the international law and constituted a violation of the concession and terms of Tehran's Agreement.<sup>768</sup> Most of the legal team concluded that participation violated the spirit, if not the letter terms of the Tehran Agreement, and considered OPEC's demand in a sense a repudiation of the five-year status quo clause embedded in the agreement. However, there was one dissenting voice; BP Legal argued that participation was never contemplated during Tehran's discussion, and no reference to it was made.<sup>769</sup> He insisted that the agreement did "not provide a sound contractual justification for refusing to discuss participation claim put forward by OPEC countries."<sup>770</sup>

OPEC's legal team was naturally at variance with the companies' view; it was satisfied that the international law did not preclude them from demanding changes to the existing arrangements and were confident that the participation proposal did not conflict with the Tehran Agreement. Participation, as noted by a member of the legal team, was acclaimed long before Tehran. OPEC was

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<sup>768</sup> Legal Committee views, December 9<sup>th</sup>, 1971, BP ARC 112636 p.16

<sup>769</sup> Internal BP Letter from R. Belgrave to D. Steel, "McCloy", August 31<sup>st</sup>, 1971, BP ARC 112636 p. 89

<sup>770</sup> BP Legal internal memo, September 9<sup>th</sup>, 1971, BP ARC 118926 P164

not too impressed with the argument that demand for participation would contravene the spirit of the Tehran agreement since, as expressed by the Kuwait Minister of Finance, Mr. Attaqi, the companies themselves had acted contrary to the spirit of the Tehran Agreement in concluding a better price settlement with Libya.<sup>771</sup> In anticipation of legal wriggling between the two sides, the absence of an agreed law, as explained by Professor Penrose, the side that can bring the greatest economic or political bargaining power, would prevail.<sup>772</sup>

Sensing the loss of leverage in their imminent standoff with OPEC, the oil companies tried to enlist the US Government to support their stand toward participation. Although the US Government had not taken a firm position, the State Department considered participation inevitable and suggested that the companies move to prevent the hardliners from taking over and bringing others to their way of thinking.<sup>773</sup>

The first round of negotiations on participation between the representatives of oil companies<sup>774</sup> and the Oil Ministers of the producing countries kicked off in Geneva on January 21<sup>st</sup>, 1972. Surprisingly it was somewhat brutal and had its share of drama and threats. Contrary to OPEC's unity, the representatives of the major oil companies were clear in their statements that each was on his own. In his opening statement, Sheik Ahmad Zaki Yamani, representing the Arab Gulf countries, announced that the intended position of the oil-producing countries was to acquire a share in the equity capital of the existing

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<sup>771</sup> Ategy to BP Sutcliffe September 15<sup>th</sup>, 1971 BP ARC 118926 p 124

<sup>772</sup> Study by Professor Edith Penrose October 1971 BP ARC 118950 p. 17

<sup>773</sup> Report on Washington meeting on August 23<sup>rd</sup>, 1971, Record notes, Précis of Foreign Office BP ARC 112636 p 97

<sup>774</sup> Oil Companies represented were Esso, Mobile, Texaco, Atlantic Richfield, SoCal, Aramco, Shell, Gulf, BP, CFP and IPC

concessions in their territories. They plan to own a minimum of 20 percent share, ultimately built up to a maximum of 51 percent.<sup>775</sup> The companies had anticipated the oil-producers demand for a 20 percent share in equity, but Sheik Yamani's request for the gradual increase to the magical majority holding of 51 percent caught the oil executives by surprise.<sup>776</sup>

Sheik Yamani's legal argument to adjust the concession agreements was centered around the "inherited principle of change of circumstances" and the notion that each country should control its natural resources. He argued that contrary to the early days of concessions, partnership and local control over natural resources had become a standard feature of any new contract. He stressed his desire to preserve the prevailing setup and pave the way to the future as full partners. Participation rather than status quo was, in his view, the best option for both sides; it would satisfy the oil-producing countries and would shield the companies from impending nationalization.

Naturally, his opening speech did not sit well with the oil Executives. Although they were aware of OPEC's intention, they were not contemplating or willing to sell their highly lucrative business; they did not even recognize any legal rights that would force them to agree. Obviously, OPEC's demand was not limited to its legality; the confrontation was assimilated with the power and right to nationalize. Sheik Yamani reflected that sentiment, as he forcefully stresses that "it is our right, and we can get it by exercising our power. I prefer to do it by agreement."

The atmosphere in the meeting became more restive once Yamani announced that compensation would be paid for at the book value of the physical assets. To the dismay

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<sup>775</sup> Report of Meeting held in Geneva on January 21<sup>st</sup>, 1972, p. 77 BP ARC 118926

<sup>776</sup> Report of Meeting held in Geneva on January 21<sup>st</sup>, 1972, p. 77 BP ARC 118926

of the oil executives, his proposal disregarded any consideration of loss of future profits and opportunities. The startled executives rejected the offer and even accused the oil-producing countries of a plan to confiscate rather than participate. BP Chairman summarized the Oil Companies view, "we cannot accept and have no counter-proposal to make. We must give a flat "no" to the package you are proposing."<sup>777</sup> Companies' representatives had even angrily circulated to the media after the meeting that they were not ready to deal or negotiate with Mr. Yamani.<sup>778</sup>

Exxon Chairman's appealed in March 1972 to the US President Richard Nixon to resist OPEC's participation demand, but his request backfired. Nixon's letter to King Feisal resulted in a stern message from the King to Aramco with a clear threat of unilateral action if effective implementation of the partnership was not satisfactorily settled.<sup>779</sup> He warned that the oil companies should not oblige the producers "to take measures to put into effect the implementation of participation."

Aramco accepted in principle immediate government participation of 20 percent. But not all of Aramco's partners were on board; SoCal's chairman told Yamani that their share in Aramco was not for sale.<sup>780</sup> Perhaps the temptation of accelerated revenue and profits and the security of supply from the oil fields of Saudi Arabia and the other Gulf States convinced Aramco's partners to indicate, though with considerable hesitation, their acceptance in principle to accord 20 percent participation

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<sup>777</sup> Report of Meeting held in Geneva on January 21<sup>st</sup>, 1972, p. 77 BP ARC 118926

<sup>778</sup> Confidential Telex from President of Aramco to London Petroleum Group (LPG), February 5<sup>th</sup>, 1972 BP ARC 99987, p. 12

<sup>779</sup> Anthony Sampson, *The Seven Sisters, The Great Oil Companies and the World They Made*

<sup>780</sup> Anthony Sampson, *The Seven Sisters, The Great Oil Companies and the World They Made*

in the existing concession to the Saudi Government. Aramco's owners realized that the expected production surge would increase their profit from 80 percent equity share in 1975 would be higher than their current 100 percent ownership. Aramco acceptance was the signal other oil companies operating in the Gulf needed to go along.

The oil companies consented to share their cherished concessions once they passed their stormy denial; the two sides settled to negotiate the problematic issue of defining the ownership of oil still in the ground and the due compensation. The oil companies' opening position was for fair compensation for buying into a profit-making business rather than the nominal book value. According to a BP paper, payment by the Gulf governments should be based on the full loss of profit estimated by the oil companies to be 35 cents per barrel for an average crude. Compensation, the companies insisted in their internal meeting, must be based "on the replacement value of physical facilities and assets, and an appropriate per barrel payment on the government's share of oil produced over the remaining life of the concession."<sup>781</sup> Aramco's owners estimated the compensation at 30 cents a barrel to be paid over the life of concession rather than a single figure for compensating the unproduced oil.<sup>782</sup>

Gulf governments rejected the oil companies' compensation for the unproduced oil; they considered such a deal as an infringement on their sovereignty. Yamani insisted that petroleum reserves belong to the countries, and any "compensation should be paid on a commercially equitable basis."<sup>783</sup> OPEC recommended that

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<sup>781</sup> BP Note by J. W. Sutcliffe on Participation, April 18<sup>th</sup>, 1972, BP ARC 118926 p.42-44

<sup>782</sup> BP Note by J. W. Sutcliffe on Participation, April 18<sup>th</sup>, 1972, BP ARC 118926 p.42-

<sup>783</sup> Letter from Norton (BP) to Glass (Shell), June 5<sup>th</sup>, 1972 BP

the purchase price, or compensation for the acquisition, be based on netbook values of physical assets and was not ready to consider any other basis for compensation.<sup>784</sup> From OPEC's perspective, sharing the concession was a political question rather than a commercial matter, and therefore commercially fair price was irrelevant.<sup>785</sup>

Confrontation was inevitable; despite oil companies' acceptance of the principle of participation, they could not conclude an amicable agreement. OPEC conference in Vienna, in June 1972, blamed the oil companies' failure to implement its commitment and warned that concert action would be taken in an extraordinary meeting requested by Sheik Yamani.<sup>786</sup> OPEC's Gulf representatives insisted on book value as a fair price for the oil companies' investment, while the oil companies viewed the pressure by the governments to change the terms of their concession without paying the full compensation would negate their rights. They accused OPEC of unilateral action to coerce them to accept an uneven compensation offer, calling it pure confiscation. However, by the end of the day, the issue of legality and international law was, as described by Dr. Edith Penrose, "tends to be superseded by the more elemental force of relative bargaining powers of the parties concerned."<sup>787</sup> At that point, OPEC governments held most of the bargaining cards.

The oil companies did finally come around. BP concluded that while book value was inadequate and full present worth of future profits was too much to expect; it

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ARC118926 p. 32

<sup>784</sup> Yamani speech in OPEC Conference in Vienna June 27<sup>th</sup>, 1972, cited in Horton's (BP) Letter dated 29<sup>th</sup> June 1972 BP ARC 118926

<sup>785</sup> Letter from Norton (BP) to Glass (Shell), June 5<sup>th</sup>, 1972 BP ARC118926 p. 32

<sup>786</sup> Press Release- OPEC Conference- Vienna, June 27<sup>th</sup>, 1972, Horton letter dated 29<sup>th</sup> June 1972, BP ARC 118926 p.2

<sup>787</sup> Article by Edith Penrose BP ARC 78907 p. 17



was more important to keep the governments' percentage down than to argue about few cents per barrel compensation. They accepted OPEC's argument that participation was a matter of resource sovereignty rather than the legality of concessions and agreements. The inevitable negotiation to conclude appropriate compensation was expected to be dominated by producing countries' desire to take charge of their oil as a natural right to its resources rather than oil companies' legalistic approach. From the governments' perspective, it was inconceivable that the issue would be submitted to any court of law; both sides realized it was up to them to reach a negotiated settlement of the extent of participation and the due compensation to be paid.

OPEC's demand for participation was complicated by the sanctity of the concession agreement in international law,' but OPEC's challenge and argument revolved around the doctrines of changing circumstances and by the right of national sovereignty. Companies' initial position of refusing to sell at any price, and later their stormy reaction to OPEC's compensation offer, was finally overcome by OPEC's chief negotiator display of power vested in the demand for sovereignty. In his capacity as an OPEC negotiator, Yamani asked Aramco's owners to recognize the fact that "the worldwide trend was toward nationalization, and the industry needed to come to terms so they can save as much as possible under the circumstances."<sup>788</sup>

Backing by King Feisal, Yamani continued to bargain with Aramco throughout 1972 for a 25 percent share. Despite Aramco's resistance and the US State Department's objection to the book value proposed by the five OPEC members,<sup>789</sup> the two sides hammered out a deal.

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<sup>788</sup> London Petroleum Group and Aramco Discussion with Sheik Yamani on March 1<sup>st</sup>, 1972, BP ARC 99987 p 16

<sup>789</sup> James Akins: foreign affairs April 1971

“The General Agreement on Participation” was finally concluded on October 5<sup>th</sup>, 1972, in New York between the major oil companies and the Gulf countries: Saudi Arabia, Kuwait, Abu Dhabi, and Qatar, and later signed in the Saudi capital Riyadh (Appendix 11). The agreement provided a starting participation of 25 percent on January 1<sup>st</sup>, 1973, cumulating to 51 percent by January 1983, where it would remain till the end of the concession. The hard-fought issue of compensation was finally settled; the Gulf States agreed to pay for their equity share based on net book value adjusted for inflation with no reference to oil reserves. However, the intricate details would be negotiated separately between each State and the respective concessionaire.

The complicated deal was soon unraveled; Libya’s nationalization blitz made the implementation of the Riyadh agreement hard to accommodate. Public sentiment even in the conservative countries of the Gulf was increasingly calling for full nationalization of the oil companies operating in their territories in a similar manner to that of North Africa and Iraq.

### **The Path to Majority Holdings**

The fact that the intention of the participation agreement was majority holding rather than the eventual full control or nationalization was hotly contested in Kuwait’s National Assembly and was criticized in the local press. Kuwait’s Government soon realized that the proposed participation could not be sustained. The prominent Kuwaiti politician, Abdulla Al Nibari, noted that the General Agreement on Participation left the impression that it was a means to pacify nationalistic sentiments and ultimately block nationalization.<sup>790</sup> He was not alone; the Chairman of

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<sup>790</sup>Taleah (Arabic), Kuwait Weekly paper, November 18th, 1972

Aramco Frank Jungers commented in a newspaper interview a few years later that “everyone in the Middle East agrees that the portion of the Riyadh Agreement of gradual equity increase was already dead; control of the vast oil reserves of the Middle East was going to change fast.” It was becoming evident that “the majors are rapidly gravitating to the point where they will be merely buyers of crude oil from the governments of producing areas.”<sup>791</sup>

Not all the signatories of the “General Agreement on Participation” were willing to close the deal. Kuwait’s National Assembly had other thoughts and where the first crack happened. The newly elected body was more inclined to Arab Nationalism and was determined to nationalize the oil companies. Under Kuwait’s Constitution, the agreement had to be ratified by the National Assembly before it is considered binding. Floor discussion in the National Assembly or Majlis Al Uma started in late January 1973, in what was described as a “historical stand.” The first order of business was to demand an immediate 51 percent rather than small steps over a full ten years. They saw the opportunity for a better deal in the tight market and the perpetual higher demand for oil. The prevailing mood was that only through majority holding could the Government control the critical decision on production, marketing, and prices.

The determined stand by members of the Assembly, press, and public pressure paid off and obliged the government to withdraw the agreement. Kuwait’s Prime Minister at that time, Sheik Jaber Al Ahmad, informed the

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p. 21

<sup>791</sup> “From Construction Engineer to CEO and Chairman of Aramco, 1948-1978,” an oral history conducted by Carol Hicke, in American perspective of Aramco, the Saudi Arabian Oil-Producing Company, 1930’s to 1980’s Regional Oral History Office, The Bancroft Library, University of California Berkeley 1995 page 572

## SOVEREIGNTY OF WEALTH

new President of Gulf Oil in June 1973 that the General Agreement on Participation should be renegotiated; 25 percent participation was no longer acceptable; it should be based on majority holding by the Kuwait Government.<sup>792</sup>

A new round of negotiations started in Vienna in August 1973 between representatives from the Kuwait government and BP and Gulf, the owners of the Kuwait Oil Company. Kuwait Government proposed a 60 percent participation in all facilities, including the Refinery, to be escalated annually to full ownership by 1980. The two companies would be compensated at net book value<sup>793</sup> in line with the General Agreement. Ultimately, the two companies agreed to the 60 percent participation, but they expressed their reservation on the proposed annual escalation of ownership in the company. Moreover, they disagreed on compensation based on the book value.

The representatives of BP and Gulf continued to negotiate for the ownership of oil under the desert sands of Kuwait, estimated in billions of dollars. They argued that the Riyadh Agreement was based on a 25 percent share of the concession rights rather than the majority holding. Both companies attempted to enlist the backing of their governments but to no avail. The British and US government were not convinced; the American Government, as noted by Secretary of State Henry Kissinger, did not involve in commercial matters.<sup>794</sup>

BP and Gulf eventually accepted compensation based on book value but did not concur with the increase of government participation beyond the 60 percent or full

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<sup>792</sup> Taleah (Arabic), Kuwait Weekly paper, June 22nd ,1973 p. 3

<sup>793</sup>Confidential Telex from KOC Kuwait to BP London, November 1973, BP ARC 4793 p. 66

<sup>794</sup>Andrew Scott Cooper, *The Oil Kings, How the U.S., Iran, and Saudi Arabia Changed the Balance of Power in the Middle East*, p. 110

nationalization. They refused to specify a termination date; instead, they proposed a harmless clause that the agreement would be reviewed before 1979. Though their suggestion resolved the impasse with the Government,<sup>795</sup> their non-commitment to complete nationalization presented a new predicament for the Government in their dealings with the National Assembly.

An agreement was signed on January 8<sup>th</sup>, 1974, between Kuwait's Government and the Anglo-American BP and Gulf in which the Government purchased 60 percent, or majority holding, of Kuwait's concession. The compensation paid by the government was based on book value in line with the General Agreement. The meager settlement Kuwait agreed to pay was described by *The Economist* as "a measly 49 million pounds for 60 percent of the two companies' installations in Kuwait."<sup>796</sup> The new agreement was once again up for ratification in the National Assembly. Although initiation of the 60 percent participation ensured majority holding by the Government of Kuwait and control over the oil company's operation, it was the lack of "gradualism and the absence of a provision dealing with the termination of the concession"<sup>797</sup> that fell short of the aspiration for the sovereignty of the oil wealth. The absence of a precise termination date of the agreement was criticized by the local press and was destined for fierce opposition on the National Assembly floor.

The government was equally resolved to pass the new arrangement; it hinted that it would dissolve the Assembly and hold a new election if the proposed agreement was rejected. The fear of possible repercussions intimidated

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<sup>795</sup> Telex from Strand KOC to BP/Gulf offices, December 7th, 1973, BP ARC 4793 p. 36

<sup>796</sup> "Taken over" *Economist* (London, England) 2 Mar. 1974: 93. *The Economist Historical Archives*. Web. 9 Aug. 2019

<sup>797</sup> National Assembly Financial Committee report March 1974

## SOVEREIGNTY OF WEALTH

the Government to adopt participation with Kuwait Oil Company owners rather than nationalize the oil resources. In a letter to the National Assembly, the Minister of Finance expressed the government's attitude of cooperation with the oil companies through practical participation. He insisted that nationalization "would open the doors for probabilities that cannot be ignored." He argued that the State sovereignty would extend over all critical decisions, including the level of investment in oil fields, determining the posted price, and laying regulation for conservation while obtaining the actual advantages of the foreign experience and technical know-how. In his opinion, participation "protected against irresponsible risk-taking in respect of Kuwait's resources."<sup>798</sup> In his news conference, the Finance Minister was clear that Kuwait "did not believe in nationalization" and considered participation as the best alternative.

Abdulla Al Nibari, perhaps the most advocate speaker of the nationalization drive in the National Assembly, argued that the presumed fear of possible difficulties of marketing Kuwait's oil in the prevailing tight supply was no longer justified. Neither the fear of the western governments' repercussion was certain as long as a regular oil supply at reasonable prices was assured. The Financial Committee of the National Assembly rejected the participation agreement, but it was finally ratified in the main chamber in May 1974, though with considerable backstage maneuvering by the Government.

Kuwait, and soon Qatar, accomplish a majority holding of their respective oil companies through goodwill and patient negotiation, soon followed by other Gulf countries. It was, as noted by *The Economist*, "the 60 percent would have been revolutionary only a short time ago. Now it

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<sup>798</sup> Translation of Gov reply to the financial committee of the National Assembly BP ARC 4793 April 24th 1974

simply keeps to a path already blazed by Kuwait and Qatar.”<sup>799</sup> Kuwait Government, as of January 1<sup>st</sup>, 1974, became the majority holder of Kuwait Oil Company. It procured 60 percent of its facilities but most importantly, it became entitled to 60 percent of the oil produced from the Kuwaiti fields, equal to its share of the concession for a price tag of \$112 million.

Government oil, or participation oil as it became known, was accrued to Kuwait Government account in their new role as part owners of the operating companies.<sup>800</sup> It was fed to the three local refineries, sold back to the two companies on a “buyback” basis, and third-party in the global markets. The sale of government shares to the oil companies on the buyback was complicated since the quantity and price of almost two million barrels of crude a day had to be mutually agreed upon beforehand. BP assessed that “it is economically and strategically preferable to buy back as large quantity as possible.” Kuwait’s government estimated that the buyback would add over \$300 million to its treasury in the 1973-1975 period.<sup>801</sup>

## **The last dash to Sovereignty**

The ferocity of the October war and the oil embargo had rapidly shifted public sentiment and intensified the demand for complete nationalization of the oil companies. It was evident during the heated discussion in the National Assembly that 60 percent participation was not the end of the road; demand for full ownership was forthcoming.

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<sup>799</sup> “Oil: now for the pay-off” *Economist* (London, England) 15 June 1974: 107. The Economist Historical Archives. Web. 9 Aug.2019

<sup>800</sup> John Blair, *The Control of Oil* p. 270

<sup>801</sup> News clip dated January 1974 cited in BP ARC 117814 P 72

## SOVEREIGNTY OF WEALTH

No sooner than the participation agreement was passed into law in May 1974 that calls for a full takeover of Kuwait Oil Company (KOC) became more vocal. National Assembly's persistent demands and the intense media drive for the government to acquire the remaining 40 percent were pursued with more vigor. It was perhaps during the heated discussion in the National Assembly and the difficulty with which the 60 percent buyout was barely passed into law that the government was ready to heed the Assembly's perseverance demand to acquire the remaining 40 percent and the full ownership of the oil company. The new Oil Minister announced that the government's aim was the total control of its oil resources.

In a press conference during the first-ever OPEC Sovereigns and Head of States summit meeting in Algiers in March 1975, Kuwait's Oil Minister, Abdulmutallab Al Khademi, abruptly announced his country's decision to take possession of the remaining 40 percent share of the country's operations held by BP and Gulf. He declared in his surprise announcement that "from this point onward, Kuwait Government alone owned all the shares of the Kuwait Oil Company." He called on the oil executives from BP and Gulf to negotiate the final settlement of transfer of their shares and agree on terms and conditions on compensation, oil offtakes, and remaining business.

Reaction in Kuwait to his announcement ranged from declaration of success of the government's oil policy to a more muted attitude of doubt and apprehension; as noted in a local paper, the devil is in the details. The press and the public continued to speculate, arguing that the declared ownership was more of window dressing, while control of oil conservation and management would continue to be in the hands of BP and Gulf. General skepticism was further reinforced during the long wait; the opposition in the Assembly complained that delays in



concluding the final agreement were incomprehensible and were even contemplating means to force the government's hand into a unilateral takeover.

Kuwait's announcement was not a surprise; Kuwait Government, according to a Gulf executive, had earlier indicated to both owners the possibility of nationalizing Kuwait Oil Company. BP had predicated very early that "it was only matter of degree and time before it is conceded."<sup>802</sup> Executives from BP and Gulf negotiated with the oil minister and other officials on compensation, credit facilities, buyback discounts, and product commitments.<sup>803</sup> The length and the complex negotiations were extended over the next nine months with frequent interruptions and stoppages. Perhaps, Kuwait Government's lack of a deadline to conclude nationalization deprived the negotiators of meaningful leverage and allowed the negotiation parties to procrastinate.

Understandably, the claim to the rights of the underground reserve was the most important and most challenging issue to negotiate and conclude. Counter-arguments reminiscent of the earlier discussion on ownership of the oil reserve still in the ground was once again debated. Although the previous buyout of 60 percent by Kuwait's government was based on the net book value, representatives of the Anglo-American owners of Kuwait Oil Company insisted on their claim to the underground reserve up to the end of the concession in 2026 as the basis of their demand for two billion dollars to end their ownership of Kuwait's concession.

The standoff was only resolved once the Oil Minister called off the negotiations in October 1975, with a perhaps

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<sup>802</sup> BP secret note "OPEC, written by Dutton", September 30th, 1971 BP ARC 8558 p 66

<sup>803</sup> "The hundred presenters" *Economist* (London, England) 6 Dec. 1975: 89. The Economist Historical Archives. Web. 9 Aug. 2019

tacit threat of nationalizing the company as the country's sovereign right. It soon became a staring contest; both sides waited. With little leverage, Kuwait Government had no choice but to outlast the oil companies in their procrastination, despite the relentless pressure from the vocal National Assembly and the continuous stream of articles in the popular press. The likelihood of complete collapse of the ongoing negotiation was approaching fast. Fearing the possibility of retaliatory measures by the oil companies to halt Kuwait's production in the case of unilateral nationalization, Kuwait Government intensified its campaign with OPEC's members to disallow the replacement of Kuwait's output by the oil companies in case of a boycott of Kuwaiti oil by the Western oil companies. The deadlock was resolved two months later once the owners of Kuwait Oil Company realized that they could not count on drawing surplus oil from other OPEC members to make up for Kuwait supply loss if the talks failed.<sup>804</sup>

OPEC's solidarity seemed to have paid off; the two sides resumed their talk in late November 1975 with relative ease. The companies presented a package to settle all the outstanding disputes that included proposed compensation for the remaining 40 percent. They had abandoned their exuberant evaluation and settled for a net book value of \$64.4 million. Kuwait Government's assessment was not too far; the Oil Ministry estimated the book value at \$50.5 million. Although the Government agreed on the higher compensation figure of \$64 million, the lower figure was affirmed in the agreement and reported to the Assembly, with the understanding "that the difference of some \$14

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<sup>804</sup> "The hundred presenters" *Economist* (London, England) 6 Dec. 1975: 89. The Economist Historical Archives. Web. 9 Aug.2019

million was passed to the companies in some other way.”<sup>805</sup>

It was not too long before an amicable agreement more in line with Kuwait’s terms was concluded and signed on December 1<sup>st</sup>, 1975, retroactive to March 5<sup>th</sup>, 1975, the day Kuwait announced its takeover (Appendix 13). It stated that “All interests remaining for the Two Companies in the rights (including the concession rights) operations and installations in Kuwait concerning petroleum including the gas liquefaction facilities as well as petroleum assets was reverted to the Government at the set date,”<sup>806</sup> rather than the end concession in 2026. The National Assembly ratified the agreement according to the Kuwait Constitution into law in January 1976.

The two companies BP and Gulf, committed themselves to purchase 950,000 barrels per day for the next five years at a discounted price of 15 cents a barrel from the market price. The preferential agreement to buy half of the government oil eased the difficulties’ the new owner faced in marketing its oil. The terms, though not as good as the companies asked for, were still significant.<sup>807</sup> It was perhaps an additional compensation for abandoning their right to access the underground oil long before the concession ended.

## **Nationalization of Aminoil**

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<sup>805</sup>BP Document “Kuwait Agreement”, December 1st ,1975, BP ARC 117814 p. 6

<sup>806</sup>BP Document “Kuwait Agreement”, December 1st ,1975, BP ARC 117814 p. 4

<sup>807</sup> “The hundred presenters” Economist (London, England) 6 Dec. 1975: 89. The Economist Historical Archives. Web. 9 Aug.2019

Kuwait's participation and later nationalization of Kuwait Oil Company left Aminoil as the only privately owned operator in Kuwait, but not for long. The shift to nationalization was taking roots, described in the Abirritation Tribunal that it was "possible to foresee a general end to the concessionary regime."<sup>808</sup> The Council of Minister endorsed in June 1977 the principle of the takeover of Aminoil facilities and its operation in Kuwait. It intended to conclude an amicable agreement to settle compensation and all outstanding financial claims, similar to the earlier agreement with Kuwait Oil Company. Kuwait Government offered payments based on the net book value of the company's physical assets, settlement of all retroactive financial claims, and business arrangement for the future relationship that included the purchase of crude oil at discounted prices for 3-5 years.

Unable to conclude an understanding with the company, the Government issued an Amiri (the equivalent of royal) Decree, under Law No.124 on September 19th, 1977, "Terminating the Agreement between Kuwait Government and Aminoil." Articles 2 and 3<sup>809</sup> declared that "all company's assets, facilities, and operation, including the refinery and other installations relating to the aforementioned Concession, should revert to the State. A joint committee would assess "fair compensation" due to the company and the extent of Aminoil's outstanding obligations to the State." Once the Decree was issued, a

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<sup>808</sup><https://jusmundi.com/en/document/decision/en-the-american-independent-oil-company-v-the-government-of-the-state-of-kuwait-final-award-wednesday-24th-march-1982> Arbitration case between Aminoil and Kuwait Government, introduced on June 23<sup>rd</sup> 1979

<sup>809</sup><https://jusmundi.com/en/document/decision/en-the-american-independent-oil-company-v-the-government-of-the-state-of-kuwait-final-award-wednesday-24th-march-1982> Arbitration case between Aminoil and Kuwait Government, introduced on June 23<sup>rd</sup> 1979

new company, "Kuwait Wafra Oil Company," was formed under a new Board of Directors and was instructed to take over Aminoil's operation in the Neutral Zone and their refinery.

Aminoil declined to join the Committee; instead, it formally protested the nationalization of its assets. In December 1977, it notified the Oil Ministry of its intention to initiate a proceeding for arbitration.<sup>810</sup> The oil Company blamed the failed negotiation for concluding the nationalization agreement on the deterioration in the "climate of attitude." Aminoil's representative noted that "although personnel relationship between the two sides was perfectly courteous, the opposition of feelings and contradictory preoccupations had developed: annoyance and suspicious prevailed on both sides."<sup>811</sup>

They requested the Tribunal to include claims not only for the hardware and the physical properties but for loss of profit resulting from the termination of the concession thirty years ahead of its expiry in 2008. Aminoil claimed a staggering \$2.6 billion for loss of profit and \$185 million as the value of their physical facilities.

Kuwait's participation in the arbitration showed their respect for the rule of law. They were represented by an experienced team and contested the claims on the merits of their argument. They rejected Aminoil's views that nationalization was discriminatory because Kuwait did not nationalize the assets of the Arabian Oil Company (AOC), on the fact that the country lacked the necessary expertise

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<sup>810</sup><https://jusmundi.com/en/document/decision/en-the-american-independent-oil-company-v-the-government-of-the-state-of-kuwait-final-award-wednesday-24th-march-1982> Arbitration case between Aminoil/ Kuwait, June 23rd. 1979

<sup>811</sup> <https://jusmundi.com/en/document/decision/en-the-american-independent-oil-company-v-the-government-of-the-state-of-kuwait-final-awa-wednesday-24th-march-1982> Arbitration case between Aminoil and Kuwait Government, introduced on June 23rd. 1979

for an offshore operation and that the AOC concession was jointly held with the Government of Saudi Arabia, rendering it impossible to nationalize.<sup>812</sup>

Court of arbitration in Paris after due deliberation concluded that the "Government "takeover" of Aminoil's enterprise, in 1977, was not inconsistent with a contract of concession, provided always that the nationalization did not possess any confiscatory character."<sup>813</sup> The Tribunal was influenced by the United Nations General Assembly Resolution 1803 of December 1962 that gave all States an "inalienable right to freely dispose of their national wealth and resources in accordance with the national interest." They concluded in March 1982 "that the Decree-Law no. 124 did not constitute a violation by Kuwait of its obligations toward Aminoil."<sup>814</sup> By the end of the day, the Tribunal unanimously awarded Aminoil almost \$180 million claimed for their physical assets.

As much as the long decade of the sixties marked OPEC's birth, it was the tumultuous first half of the seventies that shifted the power from the Majors to OPEC countries. A new relationship between the producing countries and the oil companies was in the making; the oil industry's old structure slowly disintegrated, and the foundation for new and complex relations evolved. The oil producers' solidarity ended the colonial era of large land

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<sup>812</sup> International Investment Law and Arbitration, Martin Hunter and Anthony Sinclair, Aminoil Revisited: Reflection on a Story of changing Circumstances, p. 360

<sup>813</sup> <https://jusmundi.com/en/document/decision/en-the-american-independent-oil-company-v-the-government-of-the-state-of-kuwait-final-award-wednesday-24th-march-1982> Arbitration case between Aminoil and Kuwait Government, introduced on June 23rd. 1979

<sup>814</sup> Arbitration case between Aminoil and Kuwait Government, introduced on June 23rd, 1979 <https://jusmundi.com/en/document/decision/en-the-american-independent-oil-company-v-the-government-of-the-state-of-kuwait-final-award-wednesday-24th-march-1982>

and sea concessions replaced by state ownership. The apparent lack of solidarity among the oil companies with competing and conflicting interests, the stringent anti-monopoly laws of the United States, and the evolving post-colonial attitude of separating politics from business served the final blow to the oil companies' position.

The oil companies ceased to be a buffer between the oil-producing countries and the rest of the world. Nationalization, and to a lesser extent, participation whittled away their long-held control over most facets of the industry, but at the same time, it relieved them from the political burden of balancing between the oil producers and the consumers. A three-way relationship between consumers, producers, and oil companies emerged. Control of oil, production, and prices was no longer in the companies' hands; instead, governments and markets were in the driver's seat. On the eve of complete nationalization, the Global view of the new paradigm was to a large measure the triumph of OPEC and the oil-producing countries.

The takeover of the oil concessions in the Gulf countries was achieved in an orderly and the negotiated manner. The hard-won "General Agreement" that allowed the Gulf countries, Saudi Arabia, Qatar, Abu Dhabi, and Kuwait, a 25 percent share in concessions in their respective countries was, despite its short life, a breakthrough. Minority holding was quickly replaced by majority holding and ultimately nationalization once both sides realized the constrain of shared concession while the two sides had different objectives, and in most cases opposite, if not antagonistic. Practically, all concessions holders had their offices, shareholders, organizations, and interest in the major consumer countries, and therefore it was inconceivable for the oil companies to side with the producers in cases of conflicts. The change was led by

## **SOVEREIGNTY OF WEALTH**

Kuwait, driven by the National Assembly, and soon followed by other Gulf countries.





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## **KUWAIT IN THE TIME OF BRITISH EMPIRE**

One Hand And BP/Gulf Oil Regarding The Government's Acquisition of All The Remaining Interests of The Companies In The Rights, Operations And Facilities In Kuwait Relating To Petroleum.

Appendix 1

GENERAL TREATY FOR SUPPRESSING PIRACY  
AND SLAVE TRAFFIC: GREAT BRITAIN AND THE  
ARAB TRIBES IN THE PERSIAN GULF

8 January 1820.<sup>815</sup>

Art. 1. There shall be a cessation of plunder and piracy by land and sea on the part of the Arabs, who are parties to this contract, forever.

Art. 2. If any individual of the people of the Arabs contracting shall attack any that pass by land or sea of any nation whatsoever, in the way of plunder and piracy and not of acknowledged war, he shall be accounted an enemy of all mankind and shall be held to have forfeited both life and goods. An acknowledged war is that which is proclaimed, avowed, and ordered by government against government: and the killing of men and taking of goods without proclamation, avowal, and the order of a government, is plunder and piracy.

Art. 3. The friendly (literally the pacificated) Arabs shall carry by land and sea a red flag, with or without letters in

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<sup>815</sup> Diplomacy in the Near and Middle East, A documentary Record 1535-1956 J. C. Hurewitz Vol 1, 1535-1914 p. 88

it, at their option, and this shall be in a border of white, the breadth of the white in the border being equal to the breadth of the red, as represented in the margin (the whole forming the flag known in the British Navy by the title of white pierced red), this shall be the flag of the friendly Arabs, and they shall use it and no other.

Art. 4. The pacificated tribes shall all of them continue in their former relations, with the exception that they shall be at peace with the British Government, and shall not fight with each other, and the flag shall be a symbol of this only and of nothing further.

Art. 5. The vessels of the friendly Arabs shall all of them have in their possession a paper (Register) signed with the signature of their Chief, in which shall be the name of the vessel, its length, its breadth, and how many Karahs it holds. And they shall also have in their possession another writing (Port Clearance) signed with the signature of their Chief, in which shall be the name of the owner, the name of the Nacodah, the number of men, the number of arms, from whence sailed, at what time, and to what port bound. And if a British or other vessel meet them, they shall produce the Register and the clearance.

Art. 6. The friendly Arabs, if they choose, shall send an envoy to the British Residency in the Persian Gulf with the necessary accompaniments, and he shall remain there for the transaction of their business with the Residency; and the British Government, if it chooses, shall send an envoy also to them in like manner; and the envoy shall add his signature to the signature of the Chief in the paper (Register) of their vessels, which contains the length of the vessel, its breadth, and tonnage; the signature of the envoy to be renewed every year. Also, all such envoys shall be at the expense of their own party.

Art. 7. If any tribe, or others, shall not desist from plunder and piracy, the friendly Arabs shall act against

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them according to their ability and circumstances, and an arrangement for this purpose shall take place between the friendly Arabs and the British at the time when such plunder and piracy shall occur.

Art. 8. The putting men to death after they have given up their arms is an act of piracy and not of acknowledged war; and if any tribe shall put to death any persons, either Muhammadans or others, after they have given up their arms, such tribe shall be held to have broken the peace; and the friendly Arabs shall act against them in conjunction with the British, and, God willing, the war against them shall not cease until the surrender of those who performed the act and of those who ordered it.

Art. 9. The carrying off of slaves, men, women, or children from the coasts of Africa or elsewhere, and then transporting them in vessels, is plunder and piracy, and the friendly Arabs shall do nothing of this nature.

Art. 10. The vessels of the friendly Arabs, bearing their flag above described, shall enter into all the British ports and into the ports of the allies of the British so far as they shall be able to effect it; and they shall buy and sell therein, and if any shall attack them the British Government shall take notice of it.

Art. 11. These conditions shall be common to all tribes who shall hereafter adhere thereto as the same manner as to those who adhere to them at the time present.

Appendix 2

AGREEMENT OF JANUARY 23, 1899, BETWEEN  
GREAT BRITAIN AND THE SHEIKH OF KOWEIT

*(Translation from Arabic.)*

Praise be to God alone (lit. in the name of God Almighty)  
("Bissim Ilah Ta'alah Shanuho").

The object of writing this lawful and honorable bond is, that it is hereby covenanted and agreed between Lieutenant-Colonel Malcolm John Meade, I.S.C., Her Britannic Majesty's Political Resident, on behalf of the British Government on one part, and Sheikh Mubarak-bin-Sheikh Sabah, Sheikh of Koweit, on the other part; that the said Sheikh Mubarak-bin-Sheikh Sabah, of his own free will and desire, does hereby pledge and bind himself, his heirs and successors, not to receive the agent or representative of any Power or Government at Koweit, or at any other place, within the limits of his territory, without the previous sanction of the British Government; and he further binds himself his heirs and successors not to cede, sell, lease, mortgage, or give to the Government or subjects of any other Powers nation or for any other purpose, any portion of his territory without the previous

## APPENDICES

consent of Her Majesty's Government for these purposes. This engagement also to extend to any portion of the territory of the said Sheikh Mubarak, which may now be in possession of the subjects of any other Government.

In token of the conclusion of this lawful and honourable bond. Lieutenant-Colonel Malcolm John Meade, 1.S.C., Her Britannic Majesty's Political Resident in the Persian Gulf, and Sheikh Mubarak-bin-Sheikh Subah the former on behalf of the British Government, and the last on behalf of himself, his heirs and successors, do each, in the presence of witnesses, affix their signatures, on this the 10th day of Ramazan, 1316, corresponding with the 23rd day of January, 1899.

(L.S.) M. J. MEADE,  
*Political Resident in the Persian Gulf.*

(L.S.) MUBARAK-EL-SUBĀH.

Witnesses:

(L.S.) E. WICKHAM HORE, Captain, I.M.S.

(LS.) J. CALCOTT GASKIN.

(L.S.) MUHAMMAD RAHIM-BIN-ABDUL NEBI SAFFER.



Appendix 3

CONVENTION BETWEEN THE UNITED KINGDOM  
AND TURKEY RESPECTING THE PERSIAN GULF  
AND ADJACENT TERRITORIES.

Signed at London, July 29, 1913.

*(Translation From the original document in French)*

HIS Majesty the King of the United Kingdom- of Great Britain and Ireland and of the British Dominions beyond the Seas, Emperor of India, and His Imperial Majesty the Sultan of Turkey, inspired with a sincere desire to settle in complete agreement certain questions with regard to their respective interests in the Persian Gulf and the surrounding territories, have resolved to conclude a special convention with the object of preventing any eventual cause of misunderstanding between their Governments on these questions.

They have accordingly appointed the following as their Plenipotentiaries, that is to say:

His Majesty the King of the United Kingdom of Great Britain and Ireland and of the British Dominions beyond the Seas, Emperor of India: The Right Honorable Sir Edward Grey. Barone of the United Kingdom, Knight of

## APPENDICES

the Most Noble Order of the Garter, Member of Parliament, His Majesty's Principal Secretary of State for Foreign Affairs;

His Imperial Majesty the Sultan of Turkey: His Highness Hakki Pasha, late Grand Vizier, Grand Cordon of the Imperial Orders of the Osmanieh and the Medjidieh in brilliants;

Who, having communicated to one another their full powers, found in good and due form, have agreed as follows:

### KOWEIT

#### ARTICLE 1

The territory of Koweit, as delimited by articles 5 and 7 of this convention, forms an autonomous Kaza of the Ottoman Empire.

#### ARTICLE 2.

The Sheikh of Koweit shall, as heretofore, fly the Ottoman flag, with the word "Koweit" inscribed in the corner, if he so desires, and he shall enjoy complete administrative autonomy in the territorial zone defined in article 5 of this convention. The Imperial Ottoman Government shall abstain from any interference in the affairs of Koweit, including the question of the succession, and from any administrative act or occupation, and from any military act, in the territories forming part thereof. In the event of a vacancy, the Imperial Ottoman Government shall appoint the successor of the late Sheikh, by Imperial firman, to be *kaïnakam*. The Imperial Ottoman Government shall also be free to accredit to the Sheikh a commissioner to protect the interests and the natives of other parts of the Empire.

ARTICLE 3

The Imperial Ottoman Government recognize the validity of the conventions previously concluded by the Sheikh of Koweit with His Britannic Majesty's Government dated the 23rd January, 1899, the 24<sup>th</sup> May, 1900, and the 28<sup>th</sup> February, 1904, the texts of which are annexed to this convention (Annexes I, II, III). They recognize also the validity of the concessions of land granted the said Sheik to His Britannia Majesty's Government and British subjects, and the validity of the engagements enclosed in the note dated the 24th October 1911, addressed by His Britannic Majesty's Principal Secretary of State for Foreign Affairs to the Ambassador of His Imperial Majesty the Sultan in London the text of which is annexed (Annex IV).

ARTICLE 4

With the view of confirming the understanding already reached between the two Governments by the assurances exchanged on the 6th September. 1901, between His Britannic Majesty's Embassy at Constantinople and the Imperial Ministry for Foreign Affairs, His Britannic Majesty's Government declare that, so long as no change be made by the Imperial Ottoman Government in de status quo in Koweit, as defined by this convention they will make no change in the nature of their relations with the Government of Koweit, and will establish no protectorate over the territory which is assigned to it. The Imperial Ottoman Government take note of this declaration.

ARTICLE 5

## APPENDICES

The Sheikh of Koweit exercises autonomy in the territory of which the boundary forms a semi-circle with the town of Koweit at the centre, the Khor Zoubair at the northern and Kraine at the southern end. This line is marked in red on the map annexed to this convention (Annex V). The islands of Warba, Bubiyan, Masbjan, Failka, 'Anha, Kubbar, Qaru, and Umm-el-Maragim, with the adjacent islets and waters, are included in this zone.

### ARTICLE 6

The tribes lying within the boundaries laid down in the following article are recognised as dependent on the Sheikh of Koweit, who shall collect their tithes as heretofore, and shall exercise over them the administrative functions which attach to him in his capacity of Ottoman kamimakam. The Imperial Ottoman Government shall carry out no administrative act in this zone independently of the Sheikh Koweit, and shall abstain from placing garrisons there or king any military step there whatsoever without having previously come to an understanding with His Britannic Majesty's Government.

### ARTICLE 7

The boundaries of the territory referred to in the preceding article are fixed as follows:

The line of demarcation runs north-west from the coast at the mouth of the Khor-Zoubeir and passes immediately south of Um-Kaşı, Safwan, and Jebel Sinam, leaving these places and their wells to the vilayet of Basra; on reaching the Batin the line follows it towards the southwest to

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Hafir-el-Batin, which it leaves on the side of Koweit; thence the said line runs south leaving to Koweit the wells of Es-Safa and El-Garaa, Elheba. Wabra, and *Antaa*, and reaches the *sea near Jebel -Manifa*. This lie is marked *in green* on the map annexed to this convention (Annex V).

### ARTICLE 8

In the event of the Imperial Ottoman Government agreeing with His Britannic Majesty's Government to extend the Bagdad-Basra Railway to the sea at the terminus of Koweit, or to any other terminus in the autonomous territory, the two Governments shall come to an understanding on to the measures to be taken with respect to the guarding of the line and stations, and with regard to the establishment of customs offices, warehouses, and s other installation accessory to the service of the railway.

### ARTICLE 9

The Sheikh of Koweit shall enjoy in full security the private proprietary rights which he possesses in the territory of the Basra vilayet. These private proprietary rights must be exercised in accordance with Ottoman law, and the real estate concerned shall be subject to such taxes and charges, method l'egistration and of transfer, and to such jurisdiction as are imposed by Ottoman law.

### ARTICLE 10

Criminals of the neighboring provinces shall not be allowed to enter the territory of Koweit and shall be expelled if found there; similarly, criminals of Koweit shall not be allowed to enter the neighbouring provinces and shall be expelled if found there.

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It is understood that this stipulation shall not afford a pretext to the Ottoman authorities to interfere in the affairs of Koweit; nor, on the other hand, shall it afford a pretext to the Sheikh of Koweit to interfere in the affairs of the neighbouring provinces.

Appendix 4

LETTER FROM SHEIK MUBARAK TO THE  
POLITICAL RESIDENT, REGARDING HIS PLEDGE  
TO BRITAIN ON MATTERS OF OIL

27 October 1913

*(Translation from Arabic)*

With the hand of friendship, we received your esteemed letter dated the 26th Zul Kada 1331 and in it you stated that will reference to the conversation which passed between us yesterday if we saw no objection therein it would be desirable for Your Honour to inform the British Government that we were agreeable to the arrival of His Excellency the Admiral. We are agreeable to everything which you regard advantageous and if the Admiral honours our (side) country we will associate with him one of our sons to be in his service, to show the place of bitumen in Burgan and elsewhere and if in their view there seems hope of obtaining oil therefrom we shall never give a concession in this matter to any one except a person appointed from the British Government.

This is what was necessary and I pray for the continuance of your high regard and may you be preserved.

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Appendix 5

A NOTE PROMISING BRITISH RECOGNITION OF  
KUWAIT AS AN INDEPENDENT UNDER BRITISH  
PROTECTION IN RETURN FOR HIS COOPERATION  
DURING WORLD WAR ONE

3 November 1914

In continuation of previous letter intimating the out-break of war between the British Government and Turkey, I am ordered by the British Government to convey to Your Excellency gratitude for your loyalty and your offer of assistance, and to request you to attack Umm Qasr, Safwan and Bubiyan and to occupy them. You should endeavour, afterwards, in co-operation with Shaikh Sir Khazal Khan, Amir Abdul Aziz bin Saud and other reliable Shaikhs to liberate Basrah from Turkish possession. Should this prove to be beyond your ability, you should make arrangements, if possible, to prevent Turkish reinforcements from reaching Basrah or even Qurnah, until the arrival of the British

Troops whom we shall send, please God, as soon as possible. I also hope that two of our men-of-war will reach Basrah before the arrival of your troops there. And though

## APPENDICES

it should be your highest aim in this connection to liberate Basra and the people from Turkish rule, we request that you should use your utmost endeavour in preventing troops and others from plundering the merchandise belonging to British merchants in Basrah and its dependencies, to protect the Europe residents of Basrah and to safeguard them from loss and oppression. In return for your valuable assistance in this important matter, I am ordered by the British Government to promise to Your Excellency that if succeed therein—and we shall succeed therein, please God, - we will not return Basra to the Turkish Government and we surrender it back to them at all. Furthermore, I make to you, on behalf of the British Government, certain promises concerning Your Excellency personally vis., the date gardens situate between Fao and Qurnah shall in your possession and in possess descendants without being subject to payment of revenue or taxes

(2) that if you attack Safwan, Umm Oasr and Bubiyan and occupy them, the British Government will protect you from any consequences arising from that action.

Appendix 6

[TRANSLATION - TRADUCTION] AGREEMENT  
CONCERNING THE BOUNDARY BETWEEN NEJD  
AND KUWAIT

**DONE at Bandar al-Uqair and agreed to by the  
representatives of the Governments of both Parties  
on 2 December A.D. 1922**

United Nations - Treaty Series  
Nations Unies - Recueil des Traités

IN THE NAME OF GOD, THE MERCIFUL, THE  
COMPASSIONATE

THE BOUNDARY BETWEEN NEJD AND KUWAIT

The frontier between Nejd and Kuwait begins in the west from the junction of Wadi al-Awjah with Wadi Al-Batin, leaving Al-Ruqí to Nejd. From this point it continues in a straight line, until it joins the 29th parallel and the red semi-circle referred to in article 5 of the Anglo-Turkish Agreement of 29 July 1918. This line then follows the side

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of the red semicircle until it reaches a point terminating on the coast south of Ra's al-Oulayah, and this is the indisputable southern boundary of the territory of Kuwait.

The portion of territory bounded on the north by this line, on the west by a piece of barren land called Al-Shagg, on the east by the sea and on the south by a line running west to east from Al-Shagg to Ayn al-Abd and thence to the coast north of Ra's al-Mish'ab shall be considered to be shared between the Governments of Nejd and Kuwait; in that territory they shall have equal rights until such time as a further agreement regarding it is concluded between Nejd and Kuwait through the good offices of the British Government. The map on which the boundary is indicated is Asia 1:1,000,000 drawn up by the Royal Geographical Society under the supervision of the Department of Military Geography and printed by the War Office in 1918.

DONE at Bandar al-Uqair and agreed to by the representatives of the Governments of both Parties on 2 December A.D. 1922, corresponding to 13 Rabi II A.H. 1341.

J. C. MORE, Major Political Agent, Kuwait

ABDULLAH SA'ID Delegated by His Majesty the Sultan of Nejd

I agree to the contents of this Agreement

AHMAD AL-JABER AL-SABAH Ruler of Kuwait

I agree to the contents of this Agreement

ABDULAZIZ BIN ABDUR-RAHMAN AL SA'UD Sultan of Nejd and its dependencies

Appendix 7

CONCESSION AGREEMENT BETWEEN SHEIK  
AHMAD AL JABIR AS SUBAH SHAIKH OF KUWAIT,  
AND THE KUWAIT OIL COMPANY LIMITED

23 December 1934

*The following is described by Anglo-Persian Oil Company Chief negotiator, Mr. Archibald Chisholm, in the introduction to his book The First Kuwait Oil Concession Agreement, A Record of the Negotiation 1911-1934.*

*Eighteen copies of the Concession Agreement document were signed on the 23rd December 1934, six being leather-bound copies with maps annexed (as mentioned in Article 1 of the Agreement) and twelve paper-bound. Of these Shaikh Ahmad retained one leather-bound copy and three paper-bound, the negotiators four leather-bound and seven paper-bound, and the Political Agent one leather-bound (which was registered and recorded in the Agency archives) and two paper-bound. Each leather-bound copy had two maps of Kuwait annexed, one small-scale showing Kuwait's position in the Gulf, the other larger-scale (eight miles to the inch).*

*The Concession Agreement document was printed in English and Arabic (as mentioned in Article 21 of the Agreement) in parallel columns. The English text, with the annexed maps, was as follows:*

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### IN THE NAME OF GOD, THE MERCIFUL.

This is an AGREEMENT made at Kuwait on the 23rd day of December in the year 1934 corresponding to 16<sup>th</sup> day of Ramadhan 1353 between His

Excellency Shaikh Sir Ahmad al-Jabir as-Subah, Knight Commander of the Most Eminent Order of the Indian Empire and Companion of the Most Exalted Order of the Star of India, the SHAIKH OF KUWAIT in the exercise of his powers as Ruler of Kuwait on his own behalf and in the name of and on behalf of his heirs and successors in whom is or shall be vested for the time being the responsibility for the control and government of the State of Kuwait (hereinafter called the Shaikh') and the Kuwait OIL COMPANY LIMITED a Company registered in Great Britain under the Companies Act, 1929, its successors and assigns (hereinafter called the Company').

#### Article 1

The Shaikh hereby grants to the Company the exclusive right to explore search drill for produce and win natural gas asphalt ozokerite crude petroleum and their products and cognate substances (hereinafter referred to as 'petroleum') within the State of Kuwait including all islands and territorial waters appertaining to Kuwait as shown generally on the map annexed hereto, the exclusive ownership of all petroleum produced and won by the Company within the State of Kuwait the right to refine transport sell for use within the State of Kuwait or for export and export or otherwise deal with or dispose of any and all such petroleum and the right to do all things necessary for the purposes of those operations. The Company undertakes, however, that it will not carry on any of its operations within areas occupied by or devoted to the purposes of mosques housing of staff and employees and administrative work within the present town wall of

## KUWAIT IN THE TIME OF BRITISH EMPIRE

Kuwait

The period of this Agreement shall be 75 years from the date of signature.

### Article 2

(A) Within nine months from the date of signature of this Agreement the Company shall commence geological exploration.

(B) The Company shall drill for petroleum to the following total aggregate depths and within the following periods of time at such and so many places as the Company may decide:

(1) 4,000 feet prior to the 4th anniversary of the date of signature of this Agreement. (11) 12,000 feet prior to the 10th anniversary of the date of signature of this Agreement. (111) 30,000 feet prior to the 20th anniversary of the date of signature of this Agreement.

(C) The Company shall conduct its operations in a workmanlike manner and by appropriate scientific methods and shall take all reasonable measures to prevent the ingress of water to any petroleum-bearing strata and shall duly close any unproductive holes drilled by it and subsequently abandoned. The Company shall keep the Shaikh and his London representative informed generally as to the progress and result of its drilling operations, but such information shall be treated as confidential.

### Article 3

In consideration of the rights granted by the Shaikh to the Company by this Agreement and of the assistance and protection which the Shaikh hereby undertakes to afford by all means in his power to the Company and its operations employees and property the Company shall pay

## APPENDICES

to the Shaikh the following sums:(a) Within thirty (30) days after signature of this Agreement Rupees Four Hundred and seventy-five thousand (Rs. 475,000). (b) On each anniversary of the date of signature until the Company declares that petroleum has been found in commercial quantities: EITHER Royalty of Rupees Three (Rs. 3) for every English ton (2,240 lbs.) of Kuwait petroleum won and saved by the Company in Kuwait during the year ending 3 months prior to the anniversary of the date of signature. OR Rupees Ninety-five thousand (Rs. 95,000) whichever shall be the greater sum. (c) On each anniversary of the date of signature after the Company has declared that petroleum has been found in commercial quantities: EITHER Royalty as defined above, OR Rupees Two Hundred and fifty thousand (Rs. 250,000) whichever shall be the greater sum. (d) For the purpose of this Agreement and to define the exact product to which the Royalty stated above refers, it is agreed that the Royalty is payable on each English ton of 2,240 lbs. of net crude petroleum won and saved by the Company from within the State of Kuwait-that is after deducting water sand and other foreign substances and the oil required for the customary operations of the Company's installations in the Shaikh's territories.

### Article 4

On each anniversary of the date of signature of this



Agreement the Company shall deliver to the Shaikh a return of petroleum if any on which royalty is payable for the year ended three (3) months prior to such anniversary and a statement of the amount of royalty if any due to the Shaikh for such year, and a report of its operations under this agreement during such year. The Shaikh or his Representative shall have the right to check such returns and statements which, as well as any reports shall be treated as confidential by the Shaikh with the exception of such figures therein as he may be required by law to publish.

#### Article 5

(A) For the purposes of its operations hereunder the Company shall have the right without hindrance to construct and to operate power stations, refineries, pipelines and storage tanks, facilities for water supply including boring for water, telegraph, telephone and wireless installations, roads, railways, tramways, buildings, ports, harbours, harbour works, wharves and jetties, oil and coaling stations, with such lighting as may be requisite and any other facilities or works which the Company may consider necessary and for such purposes to use free of all payments to the Shaikh any stone, sand, gravel, gypsum, clay or water which may be available and may be required for its operations hereunder, provided always that the inhabitants of the State of Kuwait are not prevented from taking their usual requirements of these materials and that the water supply of the local inhabitants and nomad population who may be dependent on the same is not endangered. The Company at its discretion but in consultation with the Shaikh may select the position of any works. The Company may likewise utilize without hindrance all such means of transportation

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by land, air and water communication or operation as may be necessary for the effective conduct of its operations hereunder.

But nothing in this Article (5A) shall confer on the Company the right to dispose of stone, sand, gravel, gypsum, clay or water by sale, export or otherwise to any other company or person within or without the State of Kuwait.

(B) The Company shall under normal conditions accept and transmit free of charge on its wireless and telegraph installations such of the Shaikh's messages as will not interfere with the Company's business, and in times of national emergency, the Shaikh shall have the full use free of charge of the Company's wireless and telegraph installations and railways for governmental purposes.

The Shaikh's ships shall have the right to use harbours utilised or constructed by the Company, provided that such use in no way hampers the Company or interferes in any way with the safety of its operations of which the company shall be the sole judge. Any wharves or appurtenances constructed by the Company shall be for its exclusive use.

The Company may use for the purposes of its operations the harbours along the coast of Kuwait but the Company shall not impede or interfere with the subjects of the Shaikh or their right to continue the use of existing harbours, anchorages, wharves and docks along the coast of Kuwait at present utilised by them for their sailing craft and fishing boats.

### Article 6

(A) The Company shall maintain in the region of the Persian Gulf a Chief Local Representative to represent it in matters relating to this Agreement with the Shaikh. The

Shaikh has the right to select on the first occasion the chief Local Representative in consultation with His Majesty's Government.

(B) The Shaikh shall have the right to appoint an Arab conversant with the English language to act as his Official Representative and who will represent him in Kuwait in matters relating to this Agreement with the Company and particularly whenever unskilled labour is recruited from among the subjects of the Shaikh this Representative shall be consulted and advise the Company regarding any such recruitment. The salary of the Representative shall not be less than Rupees Eight hundred (Rs. 800/-) per month, and such salary shall be paid by the Company monthly to the Representative as from the date of his appointment by the Shaikh.

(C) The Shaikh shall have the right to appoint-from the effective date of this Agreement-a Representative in London to represent the Shaikh in all matters relating to this Agreement with the Company in its London Office and such Representative shall have full access to the production records of the Company including the agenda of the Board meetings and shall be entitled to attend the Board's meetings at which the Shaikh's interests are discussed. The salary of such Representative shall not be less than Rupees Two thousand two hundred and fifty (Rs. 2250) per month which shall be paid to the Representative by the Company and not by the Shaikh. The salary of such Representative shall be paid either in London or Bombay as requested by him. Travelling and general expenses of the Representative shall be defrayed from the above-mentioned sum of Rupees Two thousand two hundred and fifty (Rs. 2250).

(D) If any anytime during the currency of this Agreement any dispute shall arise regarding the accuracy of the accounts of the Company in connection with the

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amount of the Royalty and/or other payments due to the Shaikh under this Agreement, the Shaikh shall have the right to appoint in consultation with His Majesty's Government-a registered firm of Auditors to examine the books of the Company, on behalf of the Shaikh, at Kuwait and/or in London as he may consider necessary. All expenditure incurred in connection with such auditing shall be paid by the Shaikh.

The Company shall provide the registered firm of Auditors appointed by the Shaikh the necessary facilities to enable them to check the books and registers of the Company and to render every assistance to enable the Auditors to thoroughly examine such accounts and in every way to assist them safeguard the interests of the Shaikh.

The Shaikh shall regard as confidential all information supplied in connection with all such auditing with the exception of such items as may have an actual bearing on the dispute or are connected with it.

### Article 7

(A) The Company shall have the right to import water, petroleum, fuel, machinery, motorcars and lorries, equipment, plant, timber, utensils, iron work, building materials, food, supplies, medicines, medical supplies, office equipment and household furniture, and all other materials, equipment and goods of whatsoever nature required by the Company and its employees for the purposes of its operations hereunder but not for resale to others, and to export its petroleum and articles previously imported by the Company free of customs or import or export duty and taxes or other charges, but it shall pay on all personal goods, clothing and general merchandise imported by the Company for the personal use of its

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employees or for resale to them, the ordinary duty in force for the time being in the State of Kuwait. Saving as in Article 3 and in this Article provided, the Company, its operations, income, profits and property including petroleum shall be exempt and free during the period of this Agreement from all present or future harbour duties, import duties, export duties, taxes, imposts and charges of any kind whether state or local, tolls, and land surface rent of whatever nature; and in consideration thereof the Company shall in addition to the payments provided for in Article 3 pay to the Shaikh on each anniversary of the date of signature of this Agreement four annas (annas 4) per ton (2,240 lbs.) of petroleum on which royalty is payable.

(B) The importation by the Company of firearms and other weapons is prohibited except with the written permission of the Shaikh

(C) If the Company should sell in Kuwait any material or goods previously imported into Kuwait for the purposes of its operations hereunder and no longer required by the Company, the Company shall pay to the Shaikh in respect of such material or goods sold the equivalent of import duty thereon at the rate in force at the time of sale. The duty shall be computed on the price received on sale.

(D) Necessary customs officials at harbours constructed by the Company or additional office for offices appointed by the Shaikh in consultation with the Company and their salaries which shall not exceed the usual salaries of such officials shall be paid by the Company which shall also provide at its own expense suitable buildings for the accommodation of customs officials at harbours which it has constructed.

### Article 8

(A) The Company shall have the right to purchase at

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current market rates fuel, water, food, building and construction materials and other supplies of every kind in connection with its operations hereunder.

(B) The Company shall employ subjects of the Shaikh as far as possible for all work for which they are suited under the supervision of the Company's skilled employees, but if the local supply of labour should in the judgment of the Company be inadequate or unsuitable, the Company shall have the right with the approval of the Shaikh which shall not be unreasonably withheld to import labour preference being given to labourers from the neighbouring Arab countries who will obey the local laws. The Company shall also have the right to import skilled and technical employees. Any employee imported by the Company who shall by misconduct cause a breach of peace or public disturbance shall at the request of the Shaikh be dismissed and shall if it is within the power of the Company to do so be sent out of Kuwait. The Company shall pay to the workers it employs a fair wage, such wage to be decided and stated by the Company at the time the workmen are engaged.

(C) The Company shall provide free of charge medical service for its employees, and the Shaikh and his family shall have the right to such medical service and necessary medical supplies free of charge.

### Article 9

The Shaikh grants to the Company free of cost the unrestricted use and occupation of and surface rights over all uncultivated land belonging to the Shaikh which the Company may need for the purposes of its operations and in particular the Company shall have the right to select in consultation with the Shaikh an area or areas of land chosen by the Company outside the present town wall of

## KUWAIT IN THE TIME OF BRITISH EMPIRE

Kuwait with exclusive surface rights upon which to erect oil refineries, storage, terminal and shipping facilities and any other works required for the Company's operations; and the Company may with the cognisance of the Shaikh buy or lease for such purposes any lands, houses or buildings with the consent of and on conditions to be arranged with the proprietors thereof but the terms of such purchase or lease shall not be in excess of those ordinarily current in their respective localities. (A) The Company shall acquire only such land, houses and buildings as are necessary for its operations under this Agreement. The Company shall inform the Shaikh from time to time of the land, houses and buildings which it requires to occupy for its operations, and land houses and buildings previously acquired by the Company from the Shaikh but found no longer necessary for its operations shall be returned by the Company to the Shaikh free of charge. (B) The Shaikh shall retain for himself the right to grant-in consultation with the Company - to another Company or Companies operating petroleum areas within territories adjoining the Kuwait borders the right to lay down pipelines and to permit such Company or Companies to construct and erect within the Kuwait territory and across same, the necessary buildings and machinery required for the transport in transit or passage over Kuwait territory of crude oil to a suitable site within the State of Kuwait considered convenient for the loading of the said crude Oil.

### Article 10

The Shaikh shall give to the Company and its employees and property all the protection in his power from theft, highway robbery, assault, willful damage and destruction, and the Company may appoint in consultation with the

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Shaikh and itself pay trustworthy guards who shall at all times be Kuwait subjects unless the Shaikh permits otherwise to assist in protecting the property of the Company and its employees. The Company shall erect at its own expense suitable buildings for the accommodation of such guards at such places as the Company shall decide.

### Article 11

(A) Before the expiration of the period specified in Article 1 hereof this Agreement shall come to an end either by surrender as provided in paragraph (B) of this Article or in Article 12 or in one of the three following cases:

(a) If the Company shall fail to fulfil its obligations under Article 2 hereof in respect of geological exploration or drilling.

(b) If the Company shall fail within six (6) months after any anniversary of the date of signature of this Agreement to make to the Shaikh any payments agreed to be due under Article 3.

(c) If the Company shall be in default under the arbitration provisions of Article 18.

In any of the above-mentioned cases the Shaikh shall be entitled to terminate this Agreement and all the property of the Company within the State of Kuwait shall become the property of the Shaikh

(B) In the event of the Company failing to make the declaration provided in Article 3 within 12 years of the date of signature of this Agreement, the Company shall at its option either pay to the Shaikh the minimum annual payment provided in Article 3(c) or surrender all rights under this Agreement.



## Article 12

(A) The Company shall have the right at any time after it has drilled the 4,000 feet provided in Article 2(B) (i) or after the expiry of 2 years from the date of signature of this Agreement whichever shall be the later date to give the Shaikh one year's notice in advance to terminate this Agreement and the Company shall on expiry of such notice have no further liabilities except to make payment of all monies which may be due to the Shaikh up to the date of termination.

(B) Should this Agreement be terminated by the Company under this Article 12, then: -

(a) If such termination occurs within 35 years from the date of signature of this Agreement all lands granted by the Shaikh and any lands or buildings which the Company may have bought and any houses or building constructed by and other immovable property of the Company within the State of Kuwait shall be handed over to the Shaikh free of charge. Producing wells or borings at the time of such termination shall be handed over in reasonably good order and repair, but

(b) if such termination occurs after 35 years from the date of signature of this Agreement all the movable and immovable property of the Company in the State of Kuwait shall be handed over to the Sheik free of cost. Producing wells or borings at the time of such termination shall be handed over in reasonably good order and repair.

## Article 13

On the Expiry of this Agreement at the end of the period

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of 75 years provided in Article 1 or of any extension or renewal of that period, all the movable and immovable property of the Company in the State of Kuwait shall be handed over to the Shaikh free of cost. Producing wells or borings at the time of such expiry shall be handed over in reasonably good order and repair.

### Article 14

The Shaikh hereby agrees that the Company may transfer the obligations and benefits of this Agreement to any Company registered within the British Empire.

### Article 15

(A) Nothing in this Agreement shall be read as restricting in any way the right of the Shaikh to grant to other parties' concessions or permits for substances other than petroleum provided that the operations and rights of the Company hereunder are not thereby injuriously affected.

If the Shaikh should at any date subsequent to the date of signature of this Agreement grant to any other parties' concessions or permits for substances other than petroleum, the Shaikh undertakes that such concessions shall contain provisions requiring the holders thereof from damaging, impeding or interfering with the property operations and interests of the Company.

Deposits of mineral substances other than petroleum such as gold, silver, copper, lead, potash, sulphur and salt or the like which may be discovered by the Company shall

be reported to the Shaikh and shall not be worked by the Company except under a special concession or permit from the Shaikh.

(B) The Company shall use the Shaikh's flag within the State of Kuwait.

#### Article 16

Failure on the part of the Company to fulfil any of the conditions of this Agreement shall not give the Shaikh any claim against the Company or be deemed a breach of this Agreement in so far as such failure arises from force majeure, and if through force majeure the fulfilment by the Company of any of the conditions of this Agreement be delayed the period of such delay shall be added to the periods fixed by this Agreement.

Force majeure as used in this Agreement includes the act of God, war, insurrection, riot, civil commotion, tide, storm, tidal wave, flood, lightning, explosion, fire, earthquake and any other happening which the Company could not reasonably prevent or control.

#### Article 17

The Shaikh shall not by general or special legislation or by administrative measures or by any other act whatever annul this Agreement except as provided in Article 11. No alteration shall be made in the terms of this Agreement by either the Shaikh or the Company except in the event of the Shaikh and the Company jointly agreeing that it is desirable in the interest of both parties to make certain alterations, deletions or additions to this Agreement.

#### Article 18

## APPENDICES

(A) If at any time during the currency of this Agreement any difference or dispute shall arise between the parties hereto concerning the interpretation or execution hereof, or anything herein contained or in connection herewith, or the rights or liabilities of either party hereunder, the same shall, failing any agreement to settle it in any other way, or after consultation with the British Political Agent in Kuwait or the British Political Resident in the Persian Gulf, be referred to two arbitrators, one of whom shall be chosen by each party, and a referee, who shall be chosen by the arbitrators before proceeding to arbitration.

(B) Each party shall nominate its own arbitrator within 60 days after the delivery of a request so to do by the other party failing which its arbitrator may at the request of the other party be designated by the British Political Resident in the Persian Gulf. In the event of the arbitrators failing to agree upon the referee within 60 days after being chosen or designated, the British Political Resident in the Persian Gulf may appoint a referee at the request of the arbitrators or either of them.

(C) The decision of the arbitrators, or in case of a difference of opinion between them the decision of the referee shall be final and binding upon both parties.

(D) In giving a decision, the arbitrators or the referee shall specify an adequate period of delay during which the party against whom the decision is given shall conform to the decision.

E) The place of arbitration shall be such as may be agreed by the parties and in default of agreement shall be London.

The Company shall make all payments that become due to the Shaikh under this Agreement into the Shaikh's account at the Ottoman Bank in Basrah and the Bank's receipt shall be a full discharge for the Company in respect to the payment of the sum stated in the Bank's receipt. The Shaikh may from time to time designate in writing another Bank or Banks for the purpose of this Article.

## Article 20

For the purpose of royalty payments, the Company shall measure by a method customarily used in good technical practice all petroleum on which royalty is payable and the Shaikh by his representative duly authorized by him shall have the right to observe such measuring and to examine and test whatever appliances may be used for such measuring. Such representative shall comply with all necessary and usual safeguards for the prevention of fire or other accident; and shall make all examinations and tests at such times and in such manner as will cause the minimum of interference with the Company's operations. If upon such examination or testing any such appliance shall be found to be out of order the Company will cause the same to be put in order at its own expense within a reasonable time, and if upon any such examination as aforesaid any error shall be discovered in any such appliance, such error shall if the Shaikh so decide after hearing the Company's explanation be considered to have existed for three (3) calendar months previous to the discovery thereof or from the last occasion of examining the same in case such occasion shall be within such period of three (3) calendar months and the royalty shall be adjusted accordingly. If the Company should find it

## APPENDICES

necessary to alter repair or replace any measuring appliance it shall give reasonable notice to the Shaikh or his representative to enable a representative of the Shaikh to be present during such alteration, repair or replacement.

The Company shall keep full and correct records of all measurements as aforesaid and the said representative of the Shaikh shall have access at all reasonable times to such records and shall be at liberty to make extracts from them. Such records shall be treated as confidential by the Shaikh and his representatives with the exception of such figures therein as the Shaikh may be required by law to publish.

### Article 21

This Agreement is written in English and translated into Arabic. If there should at any time be disagreement as to the meaning or interpretation of any clause in this Agreement, the English text shall prevail,

In witness whereof the parties to this Agreement have set their hands the day and year first above written.

ON BEHALF OF THE KUWAIT OIL COMPANY LIMITED  
Frank Holmes (signed)

A. Chisholm (signed)

IN THE PRESENCE OF H. R. P. Dickson, Lt. Col. 23-12-34

SHAIKH OF KUWAIT Ahmad al Jabir as Subah (signed)

IN THE PRESENCE OF H, R. P. Dickson, Lt.-Col.  
(signed) 23-12-34

(SEAL-Political Agency-Kuwait) Lieut.-Colonel, Lieut.-Colonel H.B.M.'s Political Agent, Kuwait. H.B.M.'s Political Agent, Kuwait.

## **KUWAIT IN THE TIME OF BRITISH EMPIRE**

APPENDIX 8

TRANSLATION OF THE LAW GOVERNING THE  
POWER OF THE KUWAIT ADMINISTRATIVE  
COUNCIL AS GRANTED BY THE RULER OF KUWAIT

9th July 1938

We, the Rule of Kuwait, in accordance with the resolution passed by the state's Administrative Council, do confirm and pass this law about the powers of the Council and we have ordered that it may be put into effect.

Article 1. The people are the source of power, as represented by the Council of their elected representative.

Article 2. The Administrative Council has to establish the following Laws:

- a. The Law of the Budget viz. the proper control of the State's income and expenditure and its diversion in just manner with the exception of the personal properties of Al-Sabah with which the Council has no right to interfere.
- b. The Law of Justice, the purpose of which is to establish the religious and common Law in such manners to ensure proper administration of Justice between the People.



## KUWAIT IN THE TIME OF BRITISH EMPIRE

- c. The Law of Public Security, the purpose of which is to ensure security within and out the town of Kuwait) up to the furthest point of the frontier.
- d. The Law of Education, the purpose of which is to establish Laws for education, that it may proceed in line with that in progressive countries.
- e. The Law of Public Health, the purpose of which to establish is Laws of Health which will protect the state and inhabitants from the dangers of ill health and diseases of all kinds.
- f. The Law of Improvements, which includes the construction of roads out of the town, the building of jails, the boring of wells, and whatever general improvement necessary within and out of the town.
- g. The Law of Emergency, the purpose of which is to establish laws which will empower the authorities to take every measure is necessary to ensure public security in the State, in the event of an emergency.
- h. Whatever law it is found necessary to establish in the interest of the public, it is the right of the Council to establish it.

Article 3. The Administration Council is the place of reference for all treaties, Concessions and Agreements. If any of these (i. e. existing) has to be renewed, it shall not be considered to have become legal unless seen and approved by the Council.

Article 4: As the state has no Court of Appeal, the power of such a court will rest temporarily with the Administrative Council until such time as a special court is established for the purpose

Article 5: The President of the Administrative Council represents the Executing Authority in the State.

Signed, Ahmad Al-Jabir Al-Subah.

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Appendix 9

EXCHANGE OF NOTES REGARDING RELATIONS  
BETWEEN UNITED KINGDOM OF GREAT BRITAIN  
AND NORTHERN IRELAND AND THE STATE OF  
KUWAIT

Kuwait. June 19, 1961

No. 1

*Note from Her Majesty's Political Resident in the Persian  
Gulf to His Highness the Ruler of Kuwait*

*Kuwait,  
June 19, 1961*

Your Highness

I have the honour to refer to the discussion which have recently taken place between your Highness and my predecessor on behalf of Her Majesty's Government in the United Kingdom about the desirability of adopting the relationship of the United Kingdom of Great Britain And Northern Ireland and the State of Kuwait to take account of the fact that your Highness' Government has the sole responsibility for the conduct of Kuwait's internal and external affairs.

The following conclusions were reached in the course of

## APPENDICES

these discussions:

- (a) The Agreement of the 23rd of January 1899 shall be terminated as being inconsistent with the sovereignty and independence of Kuwait.
- (b) The relations between the two countries shall continue to be governed by a spirit of close friendship
- (c) When appropriate the two Governments shall consult together on matters which concern them both.
- (d) Nothing in these conclusions shall affect the readiness of Her Majesty's Government to assist the Government of Kuwait if the latter request such assistance.

If the foregoing correctly represents the conclusion reached between Your Highness and Sir George Middleton I have the honour to suggest, on the instructions of Her Majesty's Principal Secretary of State for Foreign Affairs, that the present Note together with Your Highness reply to that effect shall be regarded as constituting an agreement between the United Kingdom and Kuwait in this matter which shall continue in force until either party gives the other at least three years' notice of their intention to terminate it, and that the Agreement of the 23rd of January, 1899, shall be regarded as terminated on this day's date

I have the honour to be,  
With the highest consideration,  
Your Highness' obedient servant,  
W. H. LUCE  
(Her Majesty's Political Resident).

NOTE FROM HIS HIGHNESS THE RULER OF  
KUWAIT TO HER MAJESTY'S POLITICAL RESIDENT  
IN THE PERSIAN GULF  
(*Translation*)

**KUWAIT IN THE TIME OF BRITISH EMPIRE**

His Excellency.  
Her Britannic Majesty's Political Resident in the Persian  
Gulf

Greetings,

I have the honour to refer to Your Excellency's Note of today's date which reads as follows:

I confirm that Your Excellency's Note correctly represents the conclusions reached by myself and Sir George Middleton and I agree that Your Excellency's Note and my reply shall be regarded as constituting an Agreement between Kuwait and the United Kingdom in this matter. With best regards.

ABDULLAH AL SALIM AL SABAHAH  
June 19, 1961

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### Appendix 10

#### 1971 TEHRAN AGREEMENT BETWEEN THE GOVERNMENTS OF GULF STATES AND OIL COMPANIES

14 FEBRUARY 1971

#### AGREEMENT

Abu Dhabi, Iran, Iraq, Kuwait, Qatar and Saudi Arabia (the said six states being hereinafter known as “the Gulf States” insofar as their exports from the Gulf are concerned) and the Companies listed in Annexe 1 and their affiliated (hereinafter known as “The Companies”), to establish security for supply and stability in financial arrangements agree:

- 1) The existing arrangements between each of the Gulf States and each of the companies to which this Agreement is an overall amendment, will continue to be valid in accordance with their terms.
- 2) The following provisions constitute a settlement of the terms relating to government take and other financial obligations of the Companies operating in the Gulf states as to the subject matters referred to in OPEC resolutions and as regards oil exported

## KUWAIT IN THE TIME OF BRITISH EMPIRE

from the Gulf, for a period from 15<sup>th</sup> February, 1971 to 31<sup>st</sup> December, 1975. These provisions shall be binding on both the Gulf States and the Companies for the said period.

3) These provisions are:

No

leapfrogging (a) During this Agreement, no Gulf State will seek any increase in government take or other financial obligations over that now agreed regarding Gulf production, as a result of:

1) The application of different terms in:

- i) any Gulf State as a Mediterranean exporter; or
- ii) any Mediterranean producer; or
- iii) Any producer from any other area; or

(2) The Breach of contract through unilateral action by any Government in the Gulf: or

(3) The elimination of existing disparities in the Gulf under paragraph (c) (2) (iv) or any settlement under paragraph (c) (3) THIRDLY; or

(4) The application of different terms to any future agreement in any country bordering on the Gulf.

No Embargo

b) The requirements of the six Member Countries of OPEC bordering the Gulf under OPEC Resolutions XX1.120 and XXII.131 are satisfied by the terms of this Agreement. During the period of this Agreement, the Gulf States shall not take any action in the Gulf to support any OPEC member which may demand either any increase in government take above the terms now agreed, or any increase in government take above the terms now agreed, or increase in government take or any other matter not covered by Resolution XXI.120.

## APPENDICES

Financial Terms to meet OPEC Resolution XXI.120.

(c) (1) Total tax rates on income shall be stabilized in accordance with existing arrangement, except that insofar as present tax laws provide for total rates lower than 55 per cent, the Companies concerned will submit to an amendment to the relevant income tax laws raising the total rates to 55 per cent.

(2) In satisfaction of the several claims arising out of paragraphs 2 and 3 of OPEC Resolution XXI.120:

(i) Each of the Companies shall uniformly increase as from the effective date its crude posted prices at the Gulf terminal of the Gulf States by 33 cents per barrel.

(ii) (aa) Each of the companies shall make further upward adjustments to its crude posted prices to the nearest tenth\* of a cent per barrel by increasing on 1st June, 1971 each of such posted prices by an amount equal to 2 1/2% of such posted price on the day following the effective date. On 1st January of each of the years 1973 through 1975, a further increase to the nearest tenth of a cent shall be made in each such posted price equivalent to 2 1/2% of the posted price prevailing on 31st December of the preceding year.

(ii) (bb) Each of the Companies shall increase its crude posted prices on 1st June, 1971 by 5c per barrel and a further increase of 5¢ per barrel on 1 January in each of the years 1973-1975.

(ii) (cc) Each of the Companies shall further increase its crude posted prices as from the effective date by 2c per barrel which, together with paragraph 3(d), is in satisfaction of claims related to freight disparities.

\*For each decimal fraction of a cent of 0.05 cents or above the amount is to be increased to the next higher whole 0.1 cent. For each decimal fraction of a cent below



0.05 cents, the amount is decreased by this fraction.

(iii) The increases included in (ii) above shall be in satisfaction of claim in respect of freight, escalation, and of inflation under both OEEC Resolution XXI.120 and OPEC Resolution 122, and also in the satisfaction of certain other economic consideration raised by the Gulf States.

(iv) Each of the Gulf States having an existing claim under negotiation based on posted price disparity has discussed and resolved such claim with the Companies exporting the crude grade concerned as follows: - In the case of Iranian Heavy, Saudi Arab medium and Kuwait, the posted prices shall each be increased by the Companies concerned by one cent with effect from the effective date. In the case of Basrah after the adjustment provided for in (3) FIRSTLY, the posted price will be \$1.805 for 35° API.

OPEC 120 Paragraph 4

(3) FIRSTLY, For crude oil API gravity 30.0° to 39.9° with effect from the effective date, each posted price shall be further increased by the Companies by 1/24 per barrel for each degree such crude is less than API° 40. A table showing the resulting increases before taking into account the settlement of disparities under (C) (2) (iv) is attached (Annexe 2) and forms part of this Agreement.

SECONDLY Posted prices shall apply to shipments falling within the range of 0 to .09 degrees of any full degree of API gravity and shall be subject to a gravity differential on the basis of 0.15€ per barrel for each full 0.1 degree API.

THIRDLY In the case of crudes under 30° API, the Governments and Companies shall agree on a basis for adjusting the posted price. However, if no such agreement is reached the same principles applied in FIRSTLY and SECONDLY above shall apply.

The existing per cent allowance, the gravity allowance,

## APPENDICES

and the 1/2c per barrel marketing allowance shall be eliminated as from the effective date of this Agreement.

If Libya is receiving a premium for short haul crude, which premium is to fluctuate according to freight conditions in accordance with a freight formula and if in respect of any period the premium applied by any major oil company which had production in Libya and the Gulf States exceeds for any reason the lowest level permitted by such formula for such period the Gulf States shall be entitled to additional payments as set out in Annexe 3.

(4) "Affiliate" shall mean in relation to any Company, which is wholly or partly owned directly or indirectly by that company.

(5) Each of the Gulf States accepts that the Companies undertakings hereunder constitute a fair appropriate and final settlement between each of them, and those of the Companies operating within their respective jurisdictions, of all matters related to the applicable bases of taxation and the levels of posted prices up to the effective date.

(6) The effective date of this Agreement shall be 15<sup>th</sup> February, 1971.

Done this 14th Day of February, 1971 at Tehran, Iran

For the Gulf States:

Mana Saeed Otaiba Abu Dhabi  
Jamshid Amouzegar Iran  
Saadoun Hammadi Iraq  
Abdul Rahman Al-Ateeqy Kuwait  
Hassan Kamel Qatar  
Ahmed Zaki Yamani Saudi Arabia

For the Companies:

Strathalmond

## KUWAIT IN THE TIME OF BRITISH EMPIRE

George T. Piercy  
A.C. De Crane, Jr.  
John E. Kircher  
W.P. Tavoulereas

The British Petroleum Company Limited

Compagnie Francaise des Petroles

Gulf Oil Corporation

Mobil Oil Corporation

The Shell Petroleum Company Limited and

Shell Petroleum N.V.

Standard Oil Company of California

Standard Oil Company (New Jersey)

Texaco Inc.

Continental Oil Company

Atlantic Richfield Company Standard Oil Company  
(Ohio)

Hispanica de Petroleos S.A.

American Independent Oil Company of Iran

Signal (Iran) Petroleum Company

Arabian Oil Company Limited

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Phillips Petroleum Company

## Appendix 11

### PARTICIPATION AGREEMENT

THIS AGREEMENT is made in three originals in Kuwait on 6th Muharram, 1394, corresponding to 29th January 1974 BETWEEN THE GOVERNMENT OF KUWAIT represented by the Minister of Finance and Oil (hereinafter referred to as the Government) of the first part and BP (KUWAIT) LIMITED and GULF KUWAIT COMPANY (hereinafter jointly referred to as the Companies) of the second part

Now therefore, it is hereby agreed as follows:

#### Article 1.

As from 1st January, 1974, the Government shall have:

- (i) 60 per cent of the operations and rights of the Companies in Kuwait in respect of petroleum;
- (ii) 60 per cent of each of the Companies' existing facilities in Kuwait relating to petroleum, including refining and gas liquefaction; and
- (iii) The operations, rights and facilities referred to above shall include marine craft owned by Kuwait Oil Company Limited and petroleum inventories on 31<sup>st</sup> December, 1973. Nothing in this Article shall prejudice the

## APPENDICES

Government's rights to natural gas under existing arrangements.

### Article 2.

In consideration there for, the Government shall pay ONE HUNDRED AND TWELVE MILLION UNITED STATES DOLLARS (U.S.\$112,000,000) to the Companies. Interest, calculated from the 1st January, 1974 to the date of payment, shall be added thereto.

### Article 3.

The Companies shall make a payment to the Government for the year 1973 equal to the amount which would have been payable to the Government if there had been applied in Kuwait participation arrangements based on those generally applicable in other Arab countries bordering the Arabian Gulf in respect of that year. The said amount shall include appropriate interest adjustments up to the date of payment.

### Article 4.

For each year, the Government and the Companies shall each determine out of their percentage shares of permitted production their requirements of crude oil for use in Kuwait and for export. The balance, if any, of each party's share will be made available in that year to the other party for purchase on commercial prices and terms to be determined and in accordance with procedures to be agreed between the parties from time to time.

### Article 5.

## KUWAIT IN THE TIME OF BRITISH EMPIRE

(i) The parties shall establish a Joint Management Committee consisting of four members, of whom two shall be appointed by the Government and one by each of the Companies. The Joint Management Committee shall have the responsibility of determining all major policy matters relating to management, including:

- a) Exploration, development and work programmes and construction of new facilities;
- b) Sale or disposition of assets;
- c) Capital and operating expenditures and disposition of funds;
- d) Selection, appointment and removal of key personnel; and
- e) Employee compensation and benefit plans.

The Government shall have the right to 60 votes and each of the Companies shall have the right to 20 votes. Decisions of the Joint Management Committee shall be made by 75% of the total voting rights and such decisions shall be binding on all parties.

In the event that neither of the Companies vote in favour of any capital expenditure project, the Government may nevertheless go ahead with such a project and shall put up the whole of the related expenditures and enjoy the whole of the related benefits.

(ii) Operations shall be conducted on behalf of the parties and under the direction of the Joint Management Committee by a Kuwaiti Share Company incorporated in Kuwait under Kuwait law. The capital of this Operating Company shall initially be held by the Government as to 60 per cent and by each of the Companies as to 20 per cent.

(iii) The Chairman of the Joint Management Committee and the Chairman of the Board of Directors of the Operating Company shall each be a Kuwaiti subject.

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### Article 6.

(i) The Government shall have the right to transfer or assign the whole or part of its interest hereunder to a Kuwaiti entity;

(ii) If the Government shall make any such transfer or assignment, any transferee or assignee of such interest or part thereof shall assume and be subject to concessionary and related obligations, fiscal and otherwise, in proportion to its participation.

### Article 7.

The relationship between the Government and the Companies shall be reviewed prior to the end of 1979.

### Article 8.

This Agreement shall become effective upon due ratification in accordance with the Constitution of the State of Kuwait.

FOR THE GOVERNMENT OF KUWAIT:  
ABDUL-RAHMAN SALIM AL ATEEQY MINISTER OF  
FINANCE AND OIL  
FOR BP (KUWAIT) LIMITED: J. W. R. SUTCLIFFE  
FOR GULF KUWAIT COMPANY: M. L. RALSTON



Appendix 12

PARTICIPATION

Kuwait Oil Company K.S.C Memorandum of  
Association post Kuwait Government participation in  
the ongoing Concession with 60% share

KUWAIT OIL COMPANY K.S.C  
MEMORANDUM OF ASSOCIATION

Between the undersigned

Government of Kuwait represented by Ministry of  
Finance and Oil

BP (Kuwait) Limited, represented by J.W.R. Sutcliff

Gulf Kuwait Company, represented by M R J Wyllie

IT IS HEREBY AGREED:

Article 1

The undersigned have formed a group whose objective is to establish a Kuwaiti Share Company. The Company shall be established in accordance with the provisions of the Laws of Kuwait and the provisions contained in the articles of association attached hereto.

Article 2

## **APPENDICES**

The name of the Company shall be Kuwait Oil Company K.S.C.

### **Article 3**

The principal office of the Company and its legal place of residence shall be in the City of Kuwait, State of Kuwait. The Board of Directors may establish branches or agencies of the Company in the State of Kuwait or elsewhere.

### **Article 4**

The duration of the Company shall be such duration as shall be necessary to enable its objects to be performed.

### **Article 5**

The objects for which the Company shall be established are to manage and perform in the State of Kuwait, on behalf of its shareholders or any of them, such operations as may be required relating to the exploration for and production of petroleum in the area of the Concession held by its said shareholders, including transportation delivery, refining, treating, storage and export of such petroleum; and to do all such things as may be ancillary or conducive to the proper management and performance of the said operations in accordance with the Laws of Kuwait.

The Company shall not make a profit. Unless otherwise decided by its shareholders, its financial requirements shall be provided by them in proportion to their respective shareholding.

The Company shall not own any title or interest in or

## **KUWAIT IN THE TIME OF BRITISH EMPIRE**

under the said Concession or in any of the petroleum produced from the area thereof but shall be entitled to enjoy any rights available to the operating company in accordance with the set Concession.

### **Article 6**

The capital of the Company shall be established at Fifty Thousand Kuwaiti Dinars, divided into one Thousand Shares of Fifty Kuwaiti Dinars each, and subscribed for the undersigned in the following manner:

The Government of Kuwait 600 Shares KD 30,000

BP (Kuwait) 200 Shares KD 10,000

Gulf Kuwait Company 200 Shares KD 10,000

The undersigned have paid the nominal value of the said shares as set out above to the Bank of Kuwait and the Middle East.

### **Article 7**

The expenses, costs and fees which the Company will incur as a result of its formation are estimated at KD 1,000 and are to be debited to the General Expenditure Account.  
22<sup>nd</sup> December, 1974

## APPENDICES

### Appendix 13

#### NATIONALIZATION

The following is the text of the principal agreement between the Government of Kuwait on the one hand and BP and Gulf Oil on the other regarding the government's acquisition of all the remaining interests of the companies in the rights, operations and facilities in Kuwait relating to petroleum.

#### TEXT OF KUWAIT-BP/GULF AGREEMENT

THIS AGREEMENT is made in Kuwait on the twenty-eighth day of Dhu al-Qa'dah 1395 Hijri corresponding to the first day of December 1975 BETWEEN THE GOVERNMENT OF THE STATE OF KUWAIT (hereinafter called "the Government") of the first part and BP (KUWAIT) LIMITED and GULF KUWAIT COMPANY (hereinafter jointly referred to as "the Companies") of the second part

#### WHEREAS

(1) A Participation Agreement was made on the 6th Muharram 1394 corresponding to 29th January 1974 between the Government of the first part and the Companies of the second part and was ratified by Law No.

## KUWAIT IN THE TIME OF BRITISH EMPIRE

9 of 1974;

(2) By Article 7 of the said Participation Agreement, it was agreed that the relationship between the Government and the Companies should be reviewed prior to the end of 1979;

(3) The Government and the Companies have now undertaken the said review and have agreed that as from 5th March 1975, their relationship shall be as hereinafter provided.

IT IS HEREBY AGREED as follows:

### Article 1

As from 5th March 1975, the Government has acquired all the remaining interests of the Companies in the rights (including concessionary rights), operations and facilities in Kuwait relating to petroleum, including refining and gas liquefaction facilities and petroleum inventories at that date.

### Article 2

The Government shall pay to the Companies the sum of Fifty Million and Five Hundred Thousand United States Dollars (U.S. \$50,500,000). Interest calculated from 5th March 1975 to the date of payment shall be added thereto.

### Article 3

The Companies shall within fifteen days after the Effective Date of this Agreement transfer to the Government four hundred (400) shares of fifty (50) Kuwaiti Dinars par value each, being the total of their shareholdings in Kuwait Oil Company (K.S.C.) for the par

## APPENDICES

value thereof, namely the sum of twenty thousand Kuwaiti Dinars (K.D. 20,000) to be paid on the date of transfer. The Companies shall simultaneously cause their representatives on the Board of Directors of the said Kuwait Oil Company (K.S.C.) and the Joint Management Committee to resign from their appointments thereto without replacement.

### Article 4

The Government and the Companies agree to enter into arrangements concerning the commercial supply to the Companies of Kuwait Crude Oil and matters related thereto.

### Article 5

The Government and the Companies hereby confirm the full and final settlement of their respective outstanding claims (including, in the case of the Government, all claims against Kuwait Oil Company Limited) relating to all issues for the period ending 4th March 1975 of whatever nature and however arising, including claims for interest up to that date, excluding only their liability for Kuwait Income Tax.

### Article 6

This Agreement shall become effective upon the date of its ratification in accordance with the Constitution of the State of Kuwait.

FOR THE GOVERNMENT OF KUWAIT:

**KUWAIT IN THE TIME OF BRITISH EMPIRE**

ABDUL MUTTALEB ALKAZEMI MINISTER OF OIL  
FOR BP (KUWAIT) LIMITED: P.I. WALTERS  
FOR GULF KUWAIT COMPANY: M.L. RALSTON





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